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Loxley: the development of the Lao Brewery Company

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1. Introduction

Loxley's record of success in Thailand during the past six decades is well recognised. In today's fast-changing and highly competitive world, Loxley is well positioned to play a leading role in the modern world economy. Already this great and growing Thai conglomerate has accumulated a vast range of expertise and its local and international connections will ensure continued success in the years to come. It should be realised, however, that the case study is written within a "1993" time framework, year of the establishment of Lao Brewery Co.

This case study deals with one of the successful international projects of Loxley, the Lao Brewery Company. The topics of discussion will give the reasons, the methods, the deals and the outcome of the project in order to provide practical guidelines to other Thai companies and business students in Thailand.

2. Loxley Public Company Limited

Loxley Public Company Limited was founded in 1939 under the name Loxley Rice Company (Bangkok) Limited as a joint venture between Ng Yuk Long Lamsam and Andrew Beattie of W.R. Loxley Company of Hong Kong. The original activities of the company were concerned with the export of primary products from Thailand such as rice and lumber.

In 1957 the firm was renamed as Loxley (Bangkok) Limited. By then the main business of Loxley had shifted to the import and sale of industrial products and advanced technology.

Loxley has continued to grow and transform itself over the years. The company is now engaged in numerous joint ventures with large foreign corporations. On 1 April 1993 it became a public company by the name of Loxley Public Company Limited, and was subsequently admitted as a member of the Stock Exchange of Thailand. Its shares began to be traded on 25 January 1994 under the nomenclature "LOXLEY" and under the stock category "Commerce".

2.1 Loxley's mission

Loxley is committed to fulfilling its clients' needs through leadership in the quality of products and technically sound, highly efficient sales and services. The company is aware that a policy of continuous development depends on constant adjustment to the emergence of new technologies and other complex conditions of doing business. It will only embark on investments in which the financial results can be clearly assessed, and yet it remains determined to seize new opportunities as they appear in the market. Neither direction is possible without the high competence and professionalism of its administrative, operational, and technical staff and its emphasis on long-term relationships with clients and business partners. The main aims of the company are to ensure a fair return to the shareholders, to provide adequate remuneration and benefits to employees, and to contribute to the welfare of society as a whole.

2.2 Methodology and philosophy

Loxley's methodology in the areas of domestic and international business is a study in distinctiveness. In international business, Loxley acts as direct investor. Internationally Loxley conducts itself in the way a foreign investor did forty years ago in Thailand. This differs entirely from its trading role in Thailand. Depending on the different roles it is playing, different methodologies and philosophies are applied; for example:

- Loxley the Trader
 - ◊ Looks around for opportunities
 - ◊ Builds networks and business alliances
 - ◊ Maintains long-term relationships
 - ◊ Prefers to share benefits with trusted business partners
 - ◊ Seeks monopoly situations if such can be found
 - ◊ Prefers speedy business implementation
- Loxley the Investor
 - ◊ Makes conservative investments only after thorough consideration
 - ◊ Takes great care in selecting new partners
 - ◊ Seeks beneficial investment environments such as those granted by the Boards of Investments in Asia.

2.3 The businesses of Loxley

Loxley is a trading as well as a project development company. Loxley has recently reorganised its business groups and increased the number of units from seven to sixteen. These operational Groups are: Telecommunications, Computers, Broadcast and Media, Consumer Electronics, Chemicals, Construction and Building Materials, Special Projects, Food and Beverages, Lubricants, Direct Marketing, Tourist Industry, Real Estate and Property, Transportation and Logistics, Engineering, the Energy Group, and Environment.

All of Loxley's business groups have expanded in the various provinces of Thailand and abroad, especially in Laos, Vietnam, the Union of Myanmar, Malaysia, India, the People's Republic of China, Sri Lanka, the Philippines, and (lately), North Korea. This growth pattern was achieved smoothly and in accordance with the company's (previously stated) objectives.

2.4 The food and beverages group

The group produces and distributes a wide variety of foods and beverages in Thailand and foreign countries. These include beer, several types of drinking water, fresh milk in cartons, vegetable oils and other types of food. The group plans to expand its sales to include an even greater variety of products.

3. The reasons and the ways to expand internationally

Firms become international in scope for a variety of reasons: a desire for continued growth, domestic market saturation, the potential to exploit new technological advantages and so forth. The dominant reason, however, relates to improving their own performance. There is clear evidence that among the largest multinational enterprises, a strong correlation exists between improved performance and degree of internationalisation.

For Loxley, the reasons for international expansion include :

- Loxley's quest for continual growth.
- Maintaining global market share by focusing on Indochina.
- Intense competition in the Thai market
- Potential for extension into Indochina and the Asia-Pacific region
- Loxley's vision of itself as a successful Thai conglomerate.

Loxley's record of success during the past six decades is attributable to Loxley's conviction that increased international trade is beneficial to all involved, to its desire to broaden the base and the support of its customers, to its ambition to widen the network of suppliers and business partners, and to its commitment to hone staff capabilities and remain competitive in today's changing world.

Loxley uses its experience of operating in a highly competitive environment in Thailand to penetrate the markets of Myanmar and Indochina. Once Loxley has established its first business in a country it uses its presence and knowledge of local business conditions to expand into other areas of business.

4. The Lao People's Democratic Republic



Laos is a landlocked country covering a vast territory. The country is only sparsely inhabited, with a small population of 4.5 million. Laos was involved in the devastating Vietnam war in the beginning of the seventies. It has been controlled by the communist party since 1975. Together with Vietnam it belonged to the Socialist bloc and it aligned its policies on the whole with those of the countries of that bloc.

Vientiane, the capital, is located in the middle part of the country along the Mekong river. Its population is estimated to be about one half million.

From 1975 to 1985 the Lao economy fell behind other ASEAN countries. Laos was considered one of the poorest countries in the world. The situation in Laos became worse when Soviet Union, its biggest financial supporter, announced the *perestroika* plan which included drastic cuts in development as-

sistance to its former allies. This sudden change created a serious monetary crisis in Laos. Responding to this event, in 1986 Laos announced its “New Economic Policy” (NEP) which was intended to change its previously centralised economic system into an economic system based on free competition. The NEP introduced the following important economic policies:

- The abolition of centralised price controls and the application of the market mechanism in production of goods and services. This resulted in increased production both in agriculture and in the rest of the economy.
- The macroeconomic management of the country was tightened, the currency was allowed to float freely, the government budget deficit was brought under control, the money supply was brought into line with the expansion of the economy, foreign aid was sought from international organisations and from Western donors, and all exports, but especially those of electricity and wood products, were actively promoted.

The result of these policies has been:

- ◊ Reduction of the inflation rate.
- ◊ Greater confidence of the Lao population in their own currency.
- ◊ Greater stability of currency exchange rates.
- ◊ Minimisation of the gap between the official and real exchange rates.
- Privatisation of Laos public enterprises.

The results of the privatisation policy have been:

- ◊ Improved performance and profitability of Lao public enterprises.
- ◊ More flexibility in planning, pricing and financing.
- ◊ Private participation in the sector sharply reduced the funds required for new investment by the Government.
- Improvement of the monetary and banking system.

The results of these improvements have been:

- ◊ Laos’s central bank improved its performance
- ◊ Powers for shaping monetary policy were returned to the central bank.
- ◊ Foreign banks were allowed to open branches.

The main result of the new economic mechanism is that the Lao government has opened opportunities for private companies to invest in the domestic industry. At the same time the Lao government controls certain imports to protect parts of the country’s economy, especially in regard to agricultural products such as rice, vegetables and fruits, and industrial products such as whisky, beer, soft drinks, medicine etc. (For more demographic and economic statistical details see the Annex.)

4.1 Laos advantages

- Cheap labour.
- Political stability.
- Wholly foreign owned enterprises allowed.
- Plenty of natural resources.
- Stability of the exchange rate.

- Only 20% corporate income tax.
- Foreign investors allowed to hold land rental rights.
- Construction of the Thai-Lao Friendship Bridge.
- A new generation of young leaders is expected to bring further reform.

4.2 Disadvantages

- Small population in a landlocked country.
- Frequent changes in policies and regulations.
- High inflation.
- 51% of GDP is in agriculture.
- Restrictions resulting from protective measures for domestic products.
- Limited infrastructure and high transport costs.
- Limited convertibility and restrictions on currency remittances.
- Sharp contrast between small relatively rich urban minority and a vast peasant majority living at subsistence level.

5. The Lao Brewery Company project

The Lao Brewery was started in 1975 by a French founder, and was nationalised by the Lao government a few years later.

The Lao Brewery Company holds a monopoly for beer production in the name of “Beer Lao”. The existing facilities were run as a state enterprise. Even though state enterprises are renowned for producing inferior products, the Lao Brewery Company was a notable exception. The rich and soft lager beer has always found faithful customers among the Lao population and foreigners in Laos. The beer is packed in large (630 ml) bottles which for a long time sold at 1,000 Kip or about 35 Baht per bottle. Beer Lao has up to 95% of the share of the Lao market. The remaining 5% is taken by imported brands. The full capacity of beer production reached about 9 million litres per year in 1992. With Lao incomes rising as a result of the new economic policies the demand for beer was expanding fast. The Lao government saw that it was essential that its beer production should expand because it was not looking forward to losing hard-earned foreign exchange to beer imports.

The government decided it would be impossible to reach the 30 million litres yearly production target by the year 2000 without privatising the company and seeking new financiers or partners.

5.1 Preliminary arrangements

Originally the Government had selected a French company to join as a new partner to privatise and operate their existing facilities. Unfortunately the French company dropped out of the deal at the very last minute. Having already established broad contacts in Laos, Loxley quickly got news about the breakdown of negotiations. Loxley immediately made overtures to the Lao government and a deal was

promptly sealed. The speed with which Loxley was able to make a new proposal prevented Laos from losing face over the withdrawal of the French company.

5.2 Implementation

In September 1992 Loxley's board of directors appointed Khun Suebtrakul Soonthornthum, senior executive vice president of Loxley, who normally has broad responsibilities in areas of corporate planning and financing, to assume charge of the Lao Brewery Company project. Dr. Sompop Chareonkul, first senior vice president of Loxley, took care of all marketing aspects of the project.

While Khun Suebtrakul concentrated on policy and financial aspects, Dr. Sompop led a beer marketing research survey throughout Laos.

Most importantly, the research showed that beer is considered by Lao consumers as their native beverage. Lao people find it normal to order a beer when eating out. This custom is a legacy of the colonial times when the French drank beer or wine in preference to water. Laotians are more willing to pay for a couple of beers even though their income is low because they think it is not a luxury.

The second finding of the research is that consumers have a very positive attitude towards their national beer. Even though the Beer Laos company is a national monopoly, the taste of the beer has always been good and its reliable quality appreciated by the population. The survey showed that 95% of market share was in the company's hands. The remaining 5% was taken by foreign beers only because the local production capacity could not meet the demand.

The third result of the survey is that the consumption rate of the population is still very low when compared to other countries. It pointed to the high potential for growth in the future.

The fourth finding of the research is that foreign beers cannot compete in Laos in terms of price because the local beer is protected by a fairly high tariff barrier and because for some reason smuggling is not significant.

From this research Loxley's executives felt very confident about the prospects of Laos beer market. As soon as they decided to pursue the project further they sought a strategic ally in order to offer the most attractive benefits to Laos Government.

In order to achieve the best results, Loxley had to find a partner who had experience in the brewery business including expertise in the brewing and bottling processes. The first one Loxley contacted was the Italian-Thai Development Corporation Limited Plc. (ITD), which had undertaken many projects with Loxley both in Thailand and abroad. Loxley makes a point of being sincere and honest in its dealings and its relations with partners. As a consequence its alliances are on the whole happy and durable.

The partner selection process was concluded after discussions with ITD. They were also interested in extending business to Laos, and with ITD's expertise in beverage production Loxley was able to offer a better production technology.

5.3 The Italian-Thai Development Public Co. Ltd.

5.3.1 Business lines

ITD is one of the largest construction companies in Thailand. Its main business is concentrated in the construction of industrial facilities and civil works. Furthermore, ITD has affiliates specialising in construction machinery manufacturing, cement manufacturing, structural steel and rebar manufacturing etc. ITD is also one of the main importers of wine, mineral water and beer into Thailand.

In view of the intense competition in the construction industry, ITD has had to improve its operations. It has paid greater attention to the development of human resources and to the adoption of cost effective technologies. Moreover, to diversify its activities, ITD has expanded its operations in international markets. In the first phase it concentrated its efforts especially in the Indochina region, partly because of its vicinity to Thailand, partly because the region has a great development potential. ITD was counting on being involved in such projects as electricity generation in Laos and the basic infrastructure development programs in Vietnam. ITD was keen on establishing governmental contacts in Indochina. Working on a project dear to the Lao Government was an opportunity not to be missed.

5.4 The negotiation process

After Loxley and ITD agreed to enter into a joint venture with Laos to operate a privatised brewery company, Loxley and ITD offered the following attractive terms:

- Making generous job offers to all the employees of the Lao Brewery Company to bolster staff morale.
- Promising to conduct R&D programs to explore the feasibility of growing barley in Laos, development of packaging in tin cans etc.
- Introducing new marketing skills and techniques.
- Providing the appropriate technology for factory expansion.
- Giving the undertaking that future operations will not affect the environment.

In September 1993 Loxley and ITD's incentive package was accepted by Laos. A twenty-year joint venture contract was signed and a joint venture company created with the registered capital of US\$ 20 million.

Shares are distributed as follows:

| | | |
|--------|-------|-----------------|
| Laos | 49% | US\$9.8 million |
| Loxley | 25.5% | US\$5.1 million |
| ITD | 25.5% | US\$5.1 million |



Figure 1: The New Company's Logo

Lao Brewery Co. Ltd.
 Joint venture company between
The Government of Laos
Italian-Thai Development Corp. Plc.
Loxley Public Company Limited.

As its contribution to its share of the registered capital, Laos turned the existing facilities of the Lao Brewery factory over to the new company in accordance with the regulations of Laos. It was Loxley's responsibility to find funds for the project on a minimum cost basis. Loxley used funds from both domestic banks and financial institutions as well as offshore loans. ITD adopted the same pattern of fund raising.

Next, the independent company was registered as the "Lao Brewery Company" with an eleven-member board, comprising five directors from the Lao Brewery, three from Loxley and the remaining three from ITD as shown in the Annex.

The new Lao Brewery Company retained the old management and staff, who were efficient and experienced. Loxley and ITD provided assistance in areas of marketing and technology respectively.

5.5 The marketing mix

With the expertise made available by Loxley and ITD and with full assurance of 95% of market share the following mix of manufacturing and marketing tactics was adopted:

5.6 Products

- No change was made in product ingredients and formulae so as not to change taste, quality etc.
- Target consumers were in Vientiane and the other big cities.
- It was decided to expand production capacity to meet demand.
- Product improvements were introduced such as new packaging in tin cans.

5.7 Pricing

- The selling price was maintained at 1,000 Kip for a 630 ml bottle in order to boost market volume and protect against the penetration by imported beer, especially “Tiger Beer” from Singapore, which was starting to make inroads at the time.
- Attempts were made to reduce raw material costs by growing barley in Northern Laos.

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5.8 Distribution

- The company continued to rely on the existing strong distribution channels. Loxley discovered that Laotian and Thai distribution channels are similar. The Lao Brewery supplies directly to a limited number of exclusive distributors who themselves distribute to agents. Because agents can sell many brands of beverage at the same time they have to be treated with great care and their interests must be properly served.
- Agents are located in all major cities of Laos. In a mountainous country with an incomplete road network, reaching local agents is often a time-consuming and expensive undertaking.

5.9 Promotion

Promotional activities were undertaken to bolster the enthusiasm of consumers and keep their attention away from imported beers. New sales gimmicks were introduced such as:

- Providing beer freezers to retail shops
- Developing new points of purchase such as beer gardens
- Printing new and attractive promotional material
- Organising special beer festivals
- Sponsoring sports events

One of the problems faced by the new company is that the lack of well organised or appealing local media turn consumers towards the Thai media, especially TV. There they are intensely exposed to advertisements of beers produced in Thailand.

6. Final analysis of the project

The strengths and weaknesses of the Lao Brewery project are as follows:

6.1 Strengths

- The company can easily increase production capacity to meet consumer demand and thereby maintain its high market share.
- The 20-year term of the contract is most reassuring and the fact that the contract can be extended provides further confidence to both Loxley and ITD. This means that the joint venture partners

know they will work together for a long time to come and that they can pool their efforts in trust to generate all-round benefits.

- There are no conflicts of interest in the deal because both Loxley and ITD investment policies have a long-term orientation.
- The deal boosted the power of the Lao Brewery in terms of marketing strategy (from Loxley) and production technology (from ITD), while making the best use of existing Lao human resources
- Laos can claim the Lao Brewery as one of the most successful examples of their new economic policy and of the program of privatisation of state-owned enterprises.
- The Lao Brewery will benefit from a 100% profit tax exemption for the first four years and from a 50% exemption for the following three years.
- The company will generate revenues for the Laos Government from the fifth year of operation onward. Already before that time some fiscal income will come to Laos from taxes on the higher wage bill of the company.
- The deal will contribute to acceleration of the economic growth rate of Laos.
- Similarly the deal will improve cultural appreciation and human relations between Laos and Thailand.
- Loxley and ITD will gain in-depth knowledge of business conditions in Laos.
- Loxley and ITD senior staff will build personal relationships with Lao government officials and with local business leaders. These contacts will be invaluable for future business development by the two companies.

6.2 Weaknesses

- Product packaging: Even though aluminium cans have been introduced, a lot of beer is still sold in bottles of 630 ml.
- Operations: Much of the raw materials to make and bottle beer has to be imported, such as barley and hops from Germany, bottles from mainland China and cans from Taiwan.
- Market: Limited potential market, scattered around a yet-to-be-developed country.

6.3 Future prospects

There is scope for growth in the Lao beer market as the consumption of 8-9 litres per person per year is still very low. Most of the growth in the market will benefit the Lao Brewery because of its monopoly position. To make sure that it holds on to its dominant position in the market, Lao Brewery plans to expand its capacity to 20 million litres in 1995 and 30 million litres by the year 2000. If beer consumption in Laos were at the same rate of 20-30 litres per person per year as in Thailand, the Lao Brewery would already have to produce 20-30 million litres per year in 1993.

Both Loxley and ITD plan to enter into other areas of business in Laos. There is no doubt that their investment in the Lao Brewery will be the bootstrap the two companies were looking for. It can be anticipated that Loxley and ITD will be interested in the following fields in Laos:

- **Loxley**

- ◊ Whisky production
- ◊ Hospital construction and operation
- ◊ Consumer products
- ◊ Telecommunications (conventional telephone systems, because Shinawatra has already staked out a mobile phone project).
- ◊ A hotel in Luang Prabang (already operating).
- ◊ A soft drink factory (already operating).
- ◊ Electricity generation (Loxley has already entered into a joint venture with the Lao government and Daewoo of Korea for the development of the Houai Ho dam, which will produce electricity for sale to EGAT in Thailand).

- **ITD**

- ◊ Electricity generation (would be interested in building dams)
- ◊ Electric power plants.
- ◊ Road construction.
- ◊ A soft drink factory (already operating).

Some of the above projects have already been initiated and some are being negotiated. The growth potential for Thai companies in Laos is quite promising compared to other countries in the Indochina region. In comparison with other foreign companies, Thai companies have several advantages, not the least their cultural similarity with Laotians and their geographical proximity. This should allow both Loxley and ITD to continue to expand their activities in Laos in the future.

7. Evaluation

The introduction of new economic policies has opened up a wide variety of business opportunities in Laos. The demand for infrastructure such as transportation, power, water, buildings, hotels and other facilities has sharply increased as a consequence of the new economic situation. Also, consumer demand has expanded as economic growth has resulted in an increase in disposable incomes. The Lao Brewery investment which we are considering in this review takes advantage of the rapid increase in consumer demand.

The Lao Brewery is the first investment made in Laos by both Loxley and ITD. Both companies expect many benefits from their joint venture investment there, not the least the opportunity to build cordial and friendly connections with Laos government officials. Loxley reckons from its long experience in developing a great variety of companies that once it has one business established in Laos, others will follow. The investment of Loxley in the Lao Brewery is regarded as one of its most successful projects outside Thailand. By now Loxley is the foreign company which has the largest or the second largest sales revenue in Laos. For example, it has established new projects with Laotian state companies such as the Société Nationale de Communications and the Lao Import-Export Company. These new ventures will most likely lead to many more business opportunities, further developing a privileged relationship with the Lao government.

As an additional benefit, Loxley used the unforeseen opportunity offered by the Lao Brewery investment to reinforce its strategic alliance with ITD. This company, which dominates the Thai contracting sector and has developed technical and managerial skills which are on par with any international contractor, is an ideal partner for a group like Loxley which mainly relies on its financial and marketing skills. The Loxley-ITD alliance will certainly lead to many further joint projects, not only in Laos but in other countries as well.

The reasons for the success of Loxley in the Lao Brewery project can be summarised as follows:

- The most important factor is Loxley's ability to move fast when an occasion presents itself. As soon as Loxley heard the news that an attempt to privatise the Lao Brewery Company had failed because a French group had failed to conclude a deal with the Lao Government, they went to Laos to make an offer.
- Loxley did not waste time. While framing policy and preparing financial statements and contract documents for an agreement with the Lao government, Loxley also conducted a market survey. Had Loxley acted like many other large companies in a similar situation and waited for all market research and feasibility studies to be completed before they made a move, they would have been too late. Jumping right in where the French group had left the Lao government hanging saved a lot of face and started relations with the government on the right foot.
- Even though Loxley found and developed the project, it was wise to be willing to split the investment 50-50 with another investor, ITD, which would add value to the project and would increase the confidence of the Lao government.
- Loxley understood very well the importance of finding the right Thai partner for the project. The choice had to bring additional technical know-how to the deal. Finding a reliable partner would allow the Lao Government to remain the largest shareholder in the brewery, without jeopardising Thai control of the venture. The choice of a new strategic partner would add to Loxley's future business potential. This is why it chose ITD.
- Loxley has long-term vision when it comes to investments. Loxley always emphasises the long-term benefits to be gained from each type of business.
- Loxley carefully selects the international investment projects it wants to get involved in, fully conscious that its involvement will be constrained by its human resources and its access to funding.
- Loxley carefully evaluates turnover projections for each undertaking to make sure that projects generate attractive cash flows.
- Loxley staff are encouraged to hone their intercultural skills. This has enabled Loxley to take full advantage of Lao-Thai political and human affinities. One example of such *savoir faire* is the appointment of a Laotian as chairman of the company. Another is the promotion of a Lao national image for the beer.
- Loxley made sure that its initiative included clear advantages to the Lao government in terms of transfer of know-how and the promotion of local content, all to the benefit of Laos.

8. Conclusions

The Lao Brewery Company case study covers one of Loxley's most successful projects. Other Thai companies can learn much from this deal, including the following guidelines:

- In international business, good relations and connections with host country government officials and businessmen are of paramount importance.
- It is necessary to set clear corporate objectives and strategies so that executives and employees proceed in the same direction with efficiency.
- It is important to develop interpersonal and intercultural skills of all staff so that in a rush situation their actions are guided by courtesy and by thoughtfulness towards future partners. It is easy to build up a business relationship; it is harder to repair one.
- To start an international business, a company must rely on its expertise and on opportunities that present themselves to penetrate a market. After using this first opportunity to consolidate its base, then expansion into other fields of business will naturally follow.
- The selection of partners for joint ventures must be considered carefully and their strengths and weaknesses analysed fully to make sure that they meet the expectations of the local partners. To pave the way for long-term expansion one must ascertain that they bring strategic benefits that transcend the current deal.
- Laos is one of the most attractive countries in this region for Thai enterprises to invest in. Thai companies will find less barriers to entry and at the same time less competition.
- In order to survive, Thai companies must be prepared to play a role in international markets. This is the only way that they will be able to accumulate a wide enough range of expertise and to establish connections with both local and international entrepreneurs. This is essential if a company is to compete in a fast globalising world economy.

Annex

Statistical Figures for Laos

| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 |
|---|--------|--------|--------|---------|---------|---------|-------|------|
| 1. Population (000) | 3,947 | 4,073 | 4,202 | 4,330 | 4,462 | 4,605 | - | - |
| 2. Labour force (000) | - | - | 1,752 | - | 1,859 | - | 2,100 | - |
| 3. GNP per capita (US\$) | - | 220 | 200 | 220 | 260 | 290 | 310 | 325 |
| 4. GDP growth (%) | -2.1 | 14.3 | 6.7 | 4.0 | 7.0 | 5.9 | 8.3 | 4.0 |
| 5. Inflation rate (%) | - | 59.5 | 35.7 | 13.4 | 9.9 | 6.3 | - | 7.05 |
| 6. Exchange rate (Kip/US\$) | 450 | 710 | 695 | 711 | - | 716 | - | - |
| 7. Trade balance (million US\$) | -104.6 | -147.4 | -122.9 | -131.3 | -132.9 | -150.1 | - | - |
| 8. Approved foreign investments in Laos | | | | | | | | |
| Number | 6 | 40 | 48 | 69 | 101 | 157 | - | - |
| Foreign investment (000 US\$) | 2,705 | 39,726 | 91,626 | 123,105 | 110,713 | 125,888 | - | - |

Sources of information

1. Lao People's Democratic Republic, Country Economic Memorandum March 24, 1994
2. The World Bank Atlas
3. Asia Week Magazine

Lao Brewery Company

Board of Directors:

| | | | | |
|-----|----------------|--------------|-------------------|----------|
| 1. | Mr. Bunlid | Dennawong | Chairman | (Laos) |
| 2. | Dr. Chaikut | Kannasut | President | (ITD) |
| 3. | Mr. Dalad | Buppha | Director | (Laos) |
| 4. | Mr. Leng | Kamphoon | Director | (Laos) |
| 5. | Mr. Kritsana | Wongchai | Managing Director | (Laos) |
| 6. | Mr. Sunthon | Prommajak | Director | (Laos) |
| 7. | Mr. Dhongchai | Lamsam | Director | (Loxley) |
| 8. | Mr. Suebtrakul | Soothornthum | Director | (Loxley) |
| 9. | Dr. Sompop | Chareonkul | Director | (Loxley) |
| 10. | Mr. Adisorn | Joranajit | Director | (ITD) |
| 11. | Mrs. Nijjaporn | Joranajit | Director | (ITD) |

Tutorial Notes

I. CARRYING OUT STUDENT PROJECTS

Objectives and Companies Involved

The present case study was originally an assignment for MBA students in Thailand. The goal of student projects was to carry out a research on expansion strategies of individual Thai companies. Particular about this task was that the students had to analyse the overall expansion strategy of their selected company and next had to relate this strategy to a very specific case or deal.

Objectives of the assignment were several. First of all, students had to prove that they could master the general theory of international marketing and business. Secondly, they had to apply this knowledge to a real-life Thai case. Next, they were to collect both primary and secondary data by interacting with the managers who actually carried out the project as well as by consulting various general and specific background publications. After that they had to evaluate the performance of their chosen company and its project and had to make recommendations how to improve it. Also they had to report to and interact with their tutors on a regular basis, and thus could be guided in the right direction. Finally, they also had to focus on a professional presentation of their ideas.

Very important was the participation of the people involved in international expansion projects within the company, as desk research or secondary published data research would have been quite insufficient for fulfilling the research objectives. This turned out to be one of the major challenges for the fulfilment of this research. Thai companies remain quite wary of sharing their experiences with outsiders and even if they had agreed to share them, managers were mostly busy or frequently abroad.

The students and their tutors tackled this problem by applying to as many companies as possible, many declined to participate or referred the researcher to a competitor, claiming it had more experience abroad. Finally the tutors and the students together selected the companies and their specific projects by concentrating on a good mix of investment projects versus direct exports and on an appropriate regional mix reflecting more or less Thai interests, and lastly by incorporating both large and small companies in the project. They managed to extract success stories, but, as feared, companies were even more reluctant to share their negative experiences.

For the final revision of or improvements to the student projects, we received, contrary to their initial hesitation, full cooperation from the companies and top management.

During the research work, it turned out that the major difficulty next to mustering enough support from the respective companies was the students's inexperience in structuring presentations or research work. Many among them collected a huge amount of information and came up with very interesting ideas, but often repeated themselves or lacked a logical structure and appropriate English skills to express their concepts.

Practical Time-Frame of the Elaboration of the Cases

- Step 1** Announcement of the course was made, stating that it was open to MBA students with International Business or Marketing knowledge or experience.
- Step 2** The first month included a six-hours theoretical introductory course in order to fresh up the students's background knowledge.
- Step 3** The first month also included several guest speakers who shared their company's experiences in international expansion.
- Step 4** During the second month, assignments were initiated and consequently all specific companies and projects were selected. Students received instructions (see Appendix) and received a letter of introduction to the companies stating the objectives of the assignment.
- Step 5** During the second, third and fourth month all students worked in groups of two on their assignment. They presented their progress to their assigned tutors on a monthly basis. Tutorial sessions lasted on the average about one hour per session per group.
- Step 6** Final projects were presented personally to the tutor and an oral examination was given regard to the cases.
- Step 7** The tutors revised or rewrote the case.
- Step 8** The cases were presented to the companies for their approval and/or remarks.
- Step 9** Company remarks were incorporated in the cases by the tutors and a proof-reader finalised them.

II. Loxley PLC's successful investment in the Lao Brewery

Loxley's experiences with the development of the Lao Brewery may lead to the following discussions:

Laos

Laos is a country that had chosen a socialist mode of development and only started liberalising its economy about eight years ago. It is large in surface but small in population and it is landlocked. Most students and many businessmen know little about the country; even Thais who are the neighbours of Laos and who are culturally and ethnically related know close to nothing about the country's economic development potential. Discussions may include Myanmar, Vietnam and Southern Yunnan and the role Laos will play as a transit country and purveyor of electric power to the region.

Consumer Markets in Developing Countries

As countries develop and the income of their citizens grows, the demand for certain products grows very fast. Local entrepreneurs are not always able to organise production fast enough to beat imports. Well organised foreign investors with good country knowledge will find interesting opportunities in certain fast-expanding consumer goods sectors. The discussion may include the kind of market research and prospecting which is required to find these Niches before the competition does.

Take-over Strategies

Business students all over the world dream of becoming one of those take-over specialists who are lionised in the business media. They hear about hostile take-overs and poison pill strategies to counter take-overs; they have learned about valuation, about assets stripping, about management clean-ups, about re-engineering, about slimming down and so on. Sadly enough, too little attention is given to the gentler, and much more effective, constructive take-over of the Lao Brewery by Loxley. The discussion of this case may be an occasion to make students aware that a gentler style of business may be profitable besides being more gratifying.

APPENDIX 1:

Possible Structures for Case Studies on International Expansion Projects

Introduction

Explain briefly what the case study is about and focus on the objective of the study; namely, what do you want the reader to learn from it?

Elaborate on the need for Thai companies to expand internationally

Introduce in general the reasons for Thai companies to expand internationally. Apply this to the sector to which your selected company belongs.

Introduce the company you have selected

Give an introduction to the company. Use as few statistics as possible; focus more on activities and philosophy.

Elaborate on the reasons and the way your company opted to expand internationally

Apply here the general theory of international marketing; namely, explain the company's international management style (focusing on the 4 P's) and on the structures they have implemented in order to be able to expand internationally.

Introduce the market your company opted for

First introduce the specific market chosen and again use as little statistical material as possible (however, some major indications like population or GDP/cap are advisable). Focus more on market potential and its political, economic or trade particularities.

Next explain why your company chose this market.

Explain the deal (specific case) chronologically from here on

For example:

- Introduce the key persons in your company who have implemented this deal (who, achievements etc...).
- Exactly how did your company select this market?
- What were the first steps that they implemented in that market?
- Elaborate the process of selecting a local partner.
- Pay good attention to the reasons why this partner was chosen and others not.
- Offer a brief introduction to this partner (in a similar way as to your chosen company; if possible, compare both).
- Elaborate extensively on the negotiation process (obstacles, resolution of problems, help, frustrations, steps taken in this process etc.).
- Elaborate on the results of the negotiation process.

- Explain the deal if possible in basic financial terms (cost/benefit analysis, investment plans, feasibility studies, simulation models etc.). If the company does not wish to disclose its financial data, then request it to provide some rough indications.
- Explain how the financing of the deal was set up.
- Evaluate the deal in marketing terms (strengths/weaknesses); relate to international marketing theory as well as to common sense.
- Elaborate the potential future of the deal and/or the market and go into detail on the intentions of both partners.

Evaluation

Evaluate the importance of this deal for both partners (strategically as well as financially).

Evaluate all processes and choices (e.g. choice of market and partner, negotiation process, the outcome of the deal etc.). Be critical and point out clearly the reasons for success and for failure.

Make recommendations (for improvement); first concerning this specific case (deal), next concerning your company's international expansion strategy. Focus on alternative approaches, procedures or choices.

You may use a SWOT analysis, (Strengths, Weaknesses, Opportunities, Threats) for this purpose.

Draw your conclusions

Focus extensively on what can be learned by other Thai companies from this deal.

General remarks and recommendations

- Structure your ideas, e.g. elaborate a step-by-step approach; if necessary use a time-frame, finalise all details on a specific part of your research, and so on.
- Be narrative in your style (so as to evoke the interest of your readers).
- Be scientific in your approach, but do not become too theoretical.
- Remain practical.
- Use interviews as much as possible and refer to them in your final report (quote the main participants).
- Point it out clearly when you express your own opinion and be ready if necessary/possible to back this opinion scientifically.
- Put statistics and financial models in an annex as much as possible, in order not to lessen the interest of your reader.
- Limit your presentation to twelve pages maximum for text and eight pages maximum for annexes.
- Mind your language, style and your presentation (if possible use special soft-ware, graphs etc.).
- Use Microsoft WORD 6 software and supply us with a copy of your diskette.
- Follow this structure and the above-mentioned advice as much as possible.
- Each group should present monthly to its appointed tutor, in person, the progress of its research work.