



Innovative region: Myanmar

The only way is up for raw economy

Myanmar is home to close to 60 million people, but unlike neighbouring countries, such as Thailand, India and Malaysia, Myanmar consumers – those that can afford non-essential items on a regular basis – account for just 4% of the population, according to a McKinsey & Co report.

The global management consultancy projected that Myanmar's population could have the same disposable income level by 2030 as the Philippines and Malaysia had in 2010. Some have already taken the leap into this unique market opportunity and are now staking their claim in Myanmar's commercial opportunities.

Being an entrepreneur in Myanmar is painful and you have to be gutsy. In other words, if you want to set up a business in this virgin land of business opportunities you had better put your sense of humour on standby and have bottles of antacid and headache tablets at the ready. To describe the start-up struggle with rose-coloured intentions does not properly portray the pain an entrepreneur goes through just to get simple office tasks done.

You might assume that this entrepreneurial agony is less painful if you are a Myanmar citizen speaking the local language or could boast a master's in economics from the London School of Economics and an MBA from Stanford University, followed by a four-year stint working at Google in Silicon Valley – but you would be mistaken. Nay Aung, the founder of Myanmar's first travel website, Oway.com.mm, can claim all these accolades, having left Myanmar to be educated overseas, but he still has to carry his laptop around his office in Yangon to find a strong internet signal.

In an article published in Coca-Cola's Journey stories section, Aung describes his experiences so far in setting up his business in Myanmar as very stressful. "I am trying to create risk-taking, a numbers-driven culture, in my business." But he says: "You cannot replicate Google

Katherine Steiner-Dicks, Asia reporter

culture with Myanmar culture."

Aung will probably not be the last Myanmar entrepreneur to return home thinking the process of getting a business off the ground will be easy. If you can run a company with little to no electricity, not get flustered when your location has quit its internet coverage, and not mind losing close to 30 pounds in your first year as Aung did, then you have the pioneering spirit required to get things done. He says in the Journey interview that in the first months he was demanding a lot of his employees and others working with him, many of whom were not working to his standards. "It was such a painful experience. The first year, I barely slept. I lost like 20 or 30 pounds, it was really stressful."

Like entrepreneurs the world over, he believes that in the start-up world you need to have a vision and an "acute understanding about what is needed in the market". Sharing that vision and expecting locals to understand how to achieve that vision was probably one of the hardest tasks Aung had in his first few months of setting up the site, which is getting positive reviews on international travel comparison sites.

Getting employees to share the same vision and journey is particularly important in a market that has yet to experience fast broadband internet, reasonably priced global brands, reliable transport infrastructure and low-cost reliable mobile phone services. For example, the cost of a mobile Sim card has gone down exponentially from a couple of thousand US dollars to a few dollars in recent years.

In the interview, Aung says entrepreneurs have to address something that is genuinely needed and then find the smartest way to address that need. ►





“Don’t think about how you can make money – think about how you can address the challenges and needs in the marketplace. The rest, it will happen on its own. That is what internet companies are about. They don’t require \$5m to build. They just require a huge commitment and a smart way to address marketplace needs,” he was quoted saying.

What will bring venture capital to Myanmar?

Sudheer Kuppam, Intel Capital’s managing director for Asia-Pacific, has also experienced the patchy telecommunications services of Myanmar during his recent attendance at the World Economic Forum. In a phone interview from Singapore, he recalls that during the forum there was little to no mobile phone coverage, so he had to use email to communicate to his colleagues outside the country.

Asked what above all else would help shape corporate venturing and venture capital in Myanmar, Kuppam says it will be the regulatory framework. “For venture capital investment, the most important element is the framework in respect to the local regulation of foreign investment and how it is treated coming in and going out of the country. Second is having reasonable legal and tax expertise. You need experienced lawyers to draft legal documents for investments. For example, even in other parts of south-east Asia, such as the Philippines, Indonesia, Vietnam and even still in India today, it is diffi-

Fact box

- Myanmar’s key selling points are its natural resources, strategic location with respect to India, China and south-east Asia, and young workforce, according to UK Trade & Investment. As a member of the Association of Southeast Asian Nations its stands to benefit from the bloc’s increasing economic integration, 500 million population and gross domestic product (GDP) in excess of \$700bn. In the financial year 2012-13, Burma’s GDP grew 6.3% and it is expected to grow by at least 6.5% in each of the next two years.
- Currently, 7.3 million of Myanmar’s 60 million people have access to mobile phones, making it one of the least connected countries in the world, according to government statistics. Eager to push that number to 45 million by 2015, Myanmar President Thein Sein’s government has opened the telecommunications industry to foreign players and awarded two licences to build and operate mobile networks – Telenor of Norway and Ooredoo of Qatar – in 2013.
- Only 4% of Myanmar’s population can be considered consumers – those that can afford non-essential items on a regular basis.
- Myanmar’s population could have the same disposable income level by 2030 as the Philippines and Malaysia had in 2010 (McKinsey & Co).
- Myanmar could grow as much as 8% a year if it can diversify its economy beyond agriculture into areas such as manufacturing, mining, tourism and telecoms (McKinsey & Co.). Per capita GDP could rise to \$5,100 by 2030 from \$1,300 in 2010, potentially creating a consumer class of 19 million.
- Co-operative Bank, a private bank in Myanmar, known as CB Bank, the first to use an automated teller machine in the country, reportedly wants to introduce credit cards for Myanmar citizens for both domestic and international transactions.

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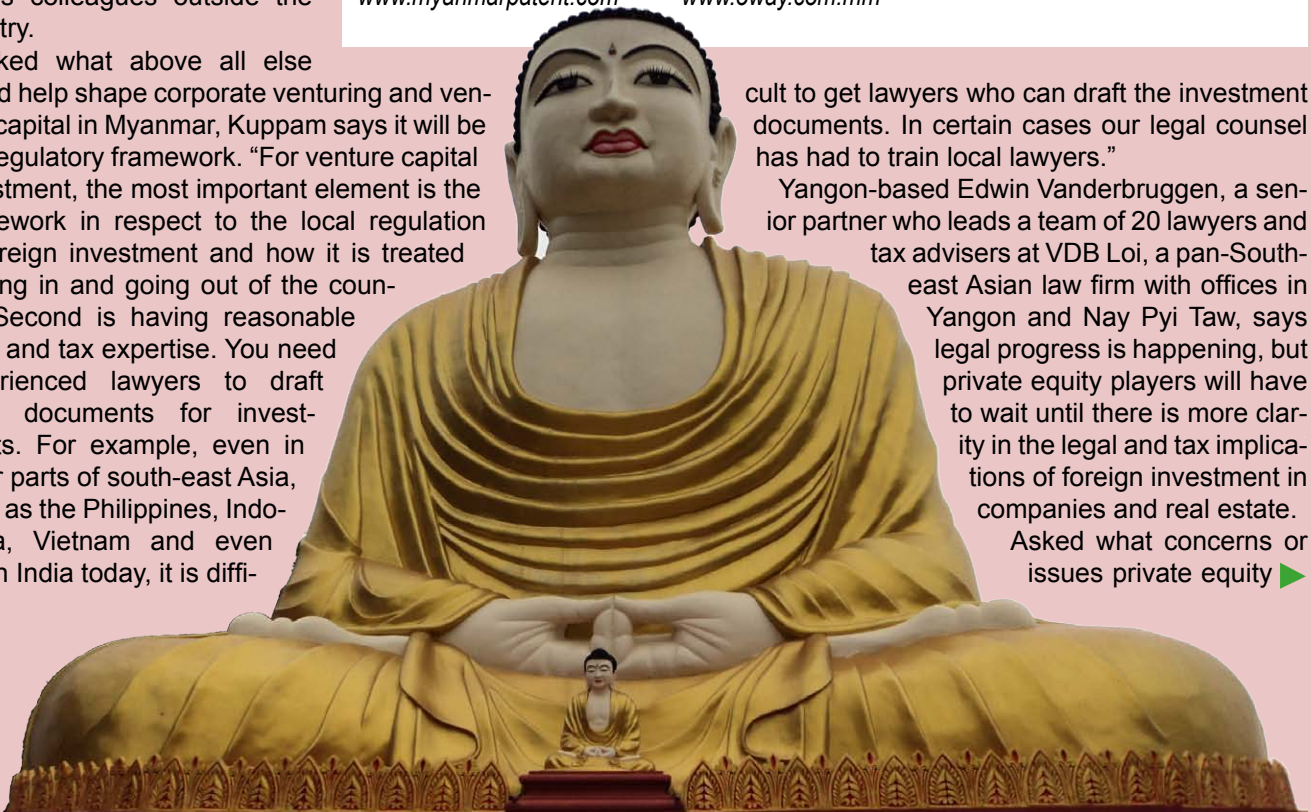
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cult to get lawyers who can draft the investment documents. In certain cases our legal counsel has had to train local lawyers.”

Yangon-based Edwin Vanderbruggen, a senior partner who leads a team of 20 lawyers and tax advisers at VDB Loi, a pan-South-east Asian law firm with offices in Yangon and Nay Pyi Taw, says legal progress is happening, but private equity players will have to wait until there is more clarity in the legal and tax implications of foreign investment in companies and real estate.

Asked what concerns or issues private equity ►



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“it was very important for us to listen and learn before we implemented our business plans”

Rehan Khan, Coca-Cola Myanmar

very big step that most overseas Burmese with successful careers in Hong Kong or London are not yet making,” he says.

Product education

The larger multinationals are therefore bearing the burden, albeit with strategic commercial goals in mind, to lead the education process for consumer goods, and internet and computer technology to this untapped market. Examples include Intel Capital's parent, chipmaker Intel, which is working alongside government and school programmes to bring

firms, corporates or family offices have voiced about the investment landscape in Myanmar, he says: “It is a matter of the need for new laws and regulations for specific areas of investment, and a lack of experience with the existing ones. Take real estate, for example. The new law on condominiums is still in draft. The Foreign Investment Law is in effect and contains very helpful clarification on land lease and security on land and buildings, but those rules are new, so there is not a lot of experience with them yet. It is difficult for clients to know from the outset how the authorities will interpret and apply those new rules.”

Many of the issues that were a genuine problem in the past have been resolved or at least hugely improved, says Vanderbruggen. Examples include foreign exchange remittance, profit extraction, land use, mortgages for foreign lenders and transparency. “The telecoms tender process itself, which was highly structured, was a huge step forward that has not gone unnoticed by the international investment community,” he says.

While travel website entrepreneur Aung has brought his vision of easy access to hotel, travel visas and flight transactions to Myanmar, there are few on-the-ground entrepreneurs with his background living in Myanmar, which means he will have to learn from his own mistakes rather than those of others.

Vanderbruggen confirms that few Myanmar locals have been educated overseas and returned home, set up or partnered private equity firms. “Actually, coming back to live here seems to be a

multiple generations up to speed on computer and internet capabilities.

Myanmar will undoubtedly take a leap in its information technology timeline because it will have the expertise of companies, such as Intel and newcomers Telenor of Norway and Ooredoo of Qatar, which were both recently granted licences to build and operate mobile networks in Myanmar, to ease in the latest technology and infrastructure.

Finland-based Nokia and Germany-based Siemens have jointly entered the Myanmar telecommunications market this year after the Directorate of Investment and Companies Administration issued a temporary registration to Nokia Siemens Networks Myanmar.

Nokia Siemens Networks plans to open an office in Yangon. Special emphasis will be placed on telecommunications equipment. The company was established in 2007 and is doing business mainly with mobile broad- ▶

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Edwin Vanderbruggen, VDB Loi





band, consultancy and managed service, and multimedia technology, according to a Weekly Media report. But the joint venture will now also play a large part in the telecommunications education drive that many eyeing the market believe will catapult growth in many business sectors.

Sir Martin Sorrell, founder of advertising firm WPP and a recent participant in this year's World Economic Forum in Myanmar, told Global Corporate Venturing the sectors that will have the biggest impact on the economy's growth trajectory in the near future will be telecommunications, energy, fast-moving consumer goods (FMCG) and automotive. Sorrell spoke after telling our annual symposium in May he expected Myanmar to be one of the final large markets to open up to international corporations.

WPP client Coca-Cola opened its first bottling plant in Myanmar in June this year, a testament to Sorrell's projections that the FMCG sector is growing.

Advertising will be a key component in driving that consumer base to try new products and services. One way of doing that is through glossy magazines, product advertorials and product comparisons. With the help of UK Trade & Investment (UKTI), UK-based Haymarket Media Group is launching its gadget magazine, *Stuff*, the first major brand of its kind to enter the Burmese market this summer. This Burmese language magazine will be published by August Myanmar Media with circulation of around 15,000 and a cover price of 3,000 Myanmar kyat (about \$3.30).

"*Stuff* will be the first full-colour, international magazine and the first to launch since the easing of economic restrictions, capitalising on the rapidly growing consumer demand for information on technology products in the country," said a UKTI press statement.

However, branded marketing campaigns cannot be appropriated from existing markets. Simple messages are working best alongside free product samples, as Coca-Cola can testify with its decision to rekindle its earliest campaigns from Atlanta in the 1880s in today's Myanmar. The Coca-Cola brand message for Myanmar is "delicious and refreshing".

Coca-Cola and other entrants into the market will have to present their goods in an educational way. For example, Coca-Cola bottles in Myanmar include directions on drinking Coke – 1: get a glass; 2: chill the bottle; 3: put three cubes of ice in the glass; 4: pour at a 45-degree angle; 5: add a dash of lime. Unlike other markets in

"Success will depend heavily on providing services and products that will revolutionise people's lives and can be distributed to the growing consumer class"

Sudheer Kuppam, Intel Capital



south-east Asia, Coca-Cola has printed the price of a Coke – 300 kyat – on the bottle to prevent price gouging, according to local news reports. Large product sampling is also being arranged, with free bottles of Coke at Buddhist festivals.

Rehan Khan, general manager, Coca-Cola Myanmar, tells Global Corporate Venturing says some of the processes the company went through to set up in the country could be transposed to other sectors.

"When the Coca-Cola system re-entered Myanmar last year, Coca-Cola products had not been officially available in Myanmar for over 60 years, so it was very important for us to listen and learn before we implemented our business plans," says Khan. "We proactively engaged with local businesses, community and civic leaders alike. We obtained insights and an understanding of not only how business is conducted in Myanmar, but the interplay between business, civil society and local communities.

"Working with a local partner – Pinya Manufacturing – has been integral to setting up local distribution of imported Coca-Cola products, followed by local manufacture of Coca-Cola products."

Global brand, local business

Khan emphasises the importance of operating as a local business even for a global brand. "Coca-Cola has a general practice of operating as a local business in each market in which it operates and Myanmar is no exception. As it grows as a local business, Coca-Cola will contribute to Myanmar's economic and social success by investing in local manufacturing, employing local people, engaging local suppliers and distributors and supporting community investment programmes.

"Specifically, Coca-Cola is keen to support the establishment and growth of local suppliers throughout its ►



value chain. Generally, for every direct employee employed by Coca-Cola, another 10 jobs are created in the value chain," he says.

Avoiding brand backlash, Khan explains the importance of knowing how to do business in Asia. "We have found it vitally important to listen, learn and adapt. As with many Asian countries, behaving respectfully and with humility is as important as your business credentials.

"Additionally, Coca-Cola's well-established global standards for corporate ethics are being incorporated into Coca-Cola's business practices in Myanmar. This includes strict adherence to its global human and workplace rights policy, supplier guiding principles, code of business conduct and anti-bribery policies," says Khan.

Coca-Cola has earmarked \$200m for future growth in Myanmar. Khan says: "We would not put a timeline on growth targets, but we are optimistic about the potential in this market and the demographic trends in the country are favourable. The non-alcoholic, ready-to-drink market in Myanmar is currently not as developed as one would expect for a market of its size and per capita GDP, so we believe there is good growth potential. We are investing in production capacity and people capabilities ahead of the curve to capture that growth."

Unilever is also establishing itself in Myanmar. The consumer-products maker has already set up its first factory in Myanmar and is producing food. The Anglo-Dutch company pledged to invest €500m (\$650m), over the next decade as it increases its operations in emerging markets.

But new entrants or those looking to enter have already witnessed intellectual property infringements, albeit from small players. Brands reportedly being counterfeited include Wal Mart and Kentucky Fried Chicken. According to news reports, patent lawyers, such as Thein Aung, a senior associate with Myanmar Trademark and Patent Law, one of the few intellectual property (IP) lawyers in the country, is already issuing cease-and-desist orders to shops with sometimes very convincing branded storefronts.

IP infringements could creep up as many small businesses will not be aware of patent law or the implications. Ethical trading will also have to be part of workforce training, so that employees as well as consumers appreciate the value of the real thing and the cost to jobs of counterfeit products.

Stock exchange

Myanmar's government is endeavouring to lure foreign investors by revolutionising its legal and regulatory framework, and opening its stock exchange within the next two



years, according to reports by PricewaterhouseCoopers (PwC) and news site FinanceAsia.

Foreign banks will be able to set up joint ventures with local banks by 2015, according to Myanmar-based tax advisers at PwC. After establishing joint ventures, foreign banks will build their own subsidiaries. Just fewer than 20 foreign banks have set up a representative office in Myanmar, including Standard Chartered and Malaysia's Maybank.

The government is reviewing and updating the Financial Institutional Law to bring it more in line with the foreign companies and institutions that are likely to drive the Myanmar economy forward and out of its 50-year hibernation period. This review process is due to be completed by 2015. Meanwhile, it is preparing to enact a securities exchange law by the end of this year.

The exchange will have agencies, brokers, dealers and underwriters, as well as new share offerings by that time, according to FinanceAsia.

Banks, miners and hotels are likely to be among the first to list on the Yangon Stock Exchange, as early as October 2015, according to PwC.

Myanmar also plans to further develop its interbank market, bond market and currency market.

"People need to be very patient, because the market is 50 years behind and trying to catch up with international standards," said Jasmine Thazin Aung, a Yangon-based director in advisory with PwC.

The future

"We met entrepreneurs at the World Economic Forum that were Myanmar citizens who graduated from Stanford and Harvard," says Kuppam of Intel Capital. "They are setting up local companies, and with that kind of background it will give us some comfort that there are those types of entrepreneurs [on the ground] that understand the needs of venture capitalists. In most emerging markets entrepreneurs do not understand a venture capital ►



term sheet. We then have to spend a lot of time educating them. Some do not even consider hiring a lawyer.”

Kuppam says they advise entrepreneurs to hire a lawyer to create a better structure for negotiating the terms. But he says they experience the same phenomenon whenever they enter a new market. Since 1991, Intel Capital has invested more than \$10.9bn in 54 countries, a growing number of them in developing venture capital markets. Intel Capital has also been a first mover venture capitalist in several markets, such as Vietnam and Ghana.

“We have a lot of experience entering new markets over the past two decades. Every time we enter a new market we have a very rigorous process of learning about the local culture, regulatory framework and how things get done. And in the end, we invest in the right entrepreneurs,” says Kuppam.

The entrepreneurs and companies that have invested in the country so far are risk-takers. Their success will depend heavily on providing services and products that will revolutionise people’s lives and that can be distrib-

uted over time to the growing consumer class, one that will be developed in part by multinationals setting up businesses and creating new jobs.

However, anyone looking to invest in Myanmar cannot turn a blind eye to the country’s elephant in the room – politics. Keeping peace between the various political parties in Myanmar alongside creating fair and just regulatory and legal frameworks – to protect citizens and foreign investors – will draw in corporate venturing.

Currently, these ideals are shared in part by the Myanmar parliament’s lower house speaker, Thura Shwe Mann, who recently said in parliament that he had no quarrel with Aung San Suu Kyi of the opposition National League for Democracy, and that treating her as an enemy would only regenerate the problems of the past, according to a report by local news site Eleven.

The speaker said: “National unity broke up at that time because of disunity between parties. We should take lessons from that. Aung San Suu Kyi is leader of the opposition as well as leader of the public in part. If we treat her as an enemy, our country’s history will repeat itself.” ■

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