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mekong capital and Mobile World (C): venturing into new Countries and segments

Andrew Delios and Markus Taussig wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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By mid-2016, Mobile World had become dominant in the Vietnamese market. In the 12th year since the company’s founding, its Mobile World mobile phone stores numbered nearly 1,000. Its rebranded Green Electronics[[1]](#footnote-1) stores topped 200. Both chains had at least one store in each of Vietnam’s 63 provinces.

Mobile World’s revenues in 2015 were five-fold greater than 2011 revenues, exceeding US$1.1 billion.[[2]](#footnote-2) Net profits passed the VND1 trillion mark (see Exhibit 1).[[3]](#footnote-3) Mobile World was listed on the Ho Chi Minh City stock exchange in 2014. As of 2016, Mobile World had claimed 38 per cent of Vietnam’s mobile phone market and Green Electronics already had 12 per cent of the electronics market. The company’s website proudly marketed its recent award for “Best Working Environment, 2015–2016.”

Mobile World had become Vietnam’s leading consumer retail firm. Its founders’ full embrace of the concept of customer-centricity had catalyzed this growth. Over the past few years, Mobile World stores had been dramatically redesigned. Employees were out from behind the counters, interacting directly with customers. The stores had greeters. These changes came about through experimentation and evidence-based decision making. Chris Freund, founding partner of private equity firm Mekong Capital (Mekong), noted:

They are experts at rapid trial and error now, they are good at rapid iterations. They change and tweak things much more rapidly than other retailers who are more stagnant. If a store is failing for three months, they shut it and move on. This was another idea that Bob [Willett] brought. Companies like Best Buy have specific stores that are the test stores, and any new initiative is tried out at these stores. And that’s exactly what Mobile World does now. It if works, they roll it out to the rest of the stores.

Nguyen Duc Tai, now Mobile World chair, agreed:

We allow for a lot of change. Try and fail. We try so many things and sometimes we fail! So, then we destroy that. We tried one shop for second-hand phones and accessories, and then it doesn’t work out and we close it down. But if it works out, then we open a few hundred stores like that.

Customer satisfaction had also been integrated into the company’s employee incentive scheme. In the words of Tai, “only customer satisfaction gives you the right to be promoted.”

Success had also resolved old tensions. Willett and Tai were still arguing about moving products out from behind locked glass displays. However, the debate was no longer about whether to do it but instead about how far to take it. Willett wanted it all out, but Tai was not ready to go that far. “A lot of things he [Bob] said, even today, I don’t do!” exclaimed Tai with a big laugh.

Tai took over the chair position from his brother-in-law and original co-founder Tran Le Quan (Quan), who took on a less involved role. Meanwhile, another founder, Dinh Anh Huan (Huan), the original driving force behind the Green Electronics chain, had cashed out his shares to create his own successful incubator/venture capital fund called Seedcom.vn.

Mekong was thrilled by the results and working on its long-delayed exit. At the same time, Mekong had to convince prospective buyers of its shares that Mobile World had significant new growth to offer. Freund, Willett, and Tai gathered in a meeting room at Mekong headquarters in Ho Chi Minh City in June 2016 to brainstorm new growth initiatives that might make the most sense. On the whiteboard, they focused on several different possibilities for industry and geographic expansions, most notably in pharmaceuticals and mid-size fresh produce retailing.

MOBILE WORLD’s Challenge in 2016

Much of what had enabled Mobile World to grow was closely aligned with Mekong’s value creation framework, Vision Driven Investing (see Exhibit 2). This framework was developed by Mekong by carefully analyzing what was consistently working or not working at Mekong’s investee companies. Some elements of Vision Driven Investing were new to Mobile World and contributed to its growth. Other elements were inspired by the success of Mobile World. Freund elaborated:

We ourselves also learned from trial and error. Our track record got a lot better from 2010 onward. In 2008, we only had pieces of it: the vision and the recruitment side, and we were starting to see the importance of corporate culture. Now our methodology, called Vision Driven Investing, has 14 key components. A lot of them are based on patterns we saw about what was adding the most value at our investee companies such as Mobile World. One component is focusing on the customer, what does the customer want? A lot of our companies don’t have the initiative to do that when we first invest. As such, part of what we do is make sure there’s a real effort to understand the customer and provide products that the customer wants.

Another part of it is getting outside experts involved. Bob was the prototype. We didn’t realize it would work out like that; we just thought Mobile World needed an expert and we reached out to Bob and got him and it worked out so well, so we decided to apply it to our other companies and it worked out every time. On the other hand, there were things that Mobile World did very well without any contribution by us—for example, its robust [information technology] IT systems and the ways in which they delegate accountability and decision-making rights deep down into the front lines. These inspired the creation of some components of Vision Driven Investing when we saw that most of our best performing companies were typically doing those things too.

Mobile World’s choice of new market was uncertain, but the decision to expand had been made. Even so, there were risks underlying any expansion. One of those risks was the dilution of Mobile World’s focus. Tai had been good at saying no to opportunities that were good ideas but detracted from Mobile World’s focus. Freund noted, “a risk is that they are expanding into too many areas, and they might lose their focus in their core businesses.”

Criteria for Expansion

Freund identified the logic that he, Willett, and Tai used to guide their brainstorming over expansion possibilities.

We created some core criteria: it has to be mass market, something that every Vietnamese family buys. There were four to five criteria we used to evaluate expansions. Based on these criteria, we shortlisted possibilities that might fit the criteria and then we explored them. It was Tai, and Bob, and me.

These criteria connected to several of the company’s capabilities. Freund, Willett, and Tai saw the company as possessing a set of four core capabilities.

*Site Selection:* Mobile World was skilled at finding good locations for its retail outlets. The company could locate high-traffic locations and organize them to maximize customer reach.

*Multi-Location Management*: With 1,000 stores in the Mobile World chain and 200 in the Green Electronics chain, Mobile World had become skilled at managing multiple disperse locations. This skill stemmed from its ability to effectively delegate throughout its organization by bringing in good people, training them as leaders, and empowering them to make the decisions they felt would best achieve the company’s goals. Other organizations in Vietnam were bottle-necked at the top, but Mobile World had trained its leaders to take responsibility and make decisions.

*Effective Supply Chain Management*: This resulted from significant management attention, enabled by the internally developed enterprise resource planning and information technology systems.

*Good Financial Management:* The growth had been impressive, with a quick rollout of stores in the past decade, done without burdening the company with high debt loads or weakening its balance sheet.

Whatever expansion they pursued, the business had to be one with large revenue potential. Ideally, it would be a market in which there was a high frequency of purchase and connected to daily needs; that is, something that everyone bought.

Finally, if Mobile World was to enter a market, it wanted to be able to dominate the market within a two- to three-year window. Mobile World needed to establish a defensible position before other companies tried to replicate its entry.

Among the many possibilities, three options stood out as particularly attractive.

Option 1: International Expansion into Mobile Phones and Electronics

A number of Vietnam’s neighbours had surpassed Vietnam in recent years on the list of the world’s fastest-growing countries. These included the other two Indochinese transition economies, Cambodia and Laos. Furthermore, Myanmar, an only slightly more distant country of over 50 million people, was in many ways just starting its transition from central planning and opening up to the global economy. In each of these countries, the mobile phone and electronics markets were still just as fragmented as they had been in Ho Chi Minh City back in 2004.

Option 2: Domestic Diversification into Retail Pharmaceuticals

Like the mobile phone shop business, the pharmaceutical business in Vietnam was highly fragmented. Owner-operator shops abounded and could be found within easy walking distance of one another. There was little consolidation, with each pharmacy operating like a family-owned business, headed by a qualified pharmacist. Corporatization was rare. The consequences were easy access for consumers, close associations between pharmacists and their customers, and lax applications of rules and guidelines regarding the sale and distribution of controlled pharmaceutical customers. Off-prescription sales were the norm.

Option 3: Domestic Diversification into Mini-Mart Fresh Produce Retailing

Vietnamese families seldom bought and stored food at home, particularly fresh produce. Fruits and vegetables, as well as fresh fish, were commonly purchased from local vendors within just minutes of where it was to be cooked or served. This generally meant purchasing from small shops, which were run out of the ground-floor entrance ways to private houses, or from neighbourhood wet markets. The purchasing process was simple. The customer selected a product from small baskets on the floor, the retailer weighed the produce on the spot, and payment was made in cash. Repeat purchases and nearby competition kept prices reasonable. However, concerns abounded regarding safety in the food chain, especially how clean the produce was in these small family shops. Observable dirt could be cleaned, but pesticides, herbicides, and other chemical pollutants could not be detected by casual or close examination. Infiltration of food from China into the supply chain was also seen as a severe threat.

Decision

For Mobile World to continue at the level of performance it had grown accustomed to, the time had come to expand beyond either country or industry borders. The criteria for selection were clear, as was the guiding paradigm for the management of the businesses. Although several options existed, the core leadership team had narrowed debate down to either regional expansion in the company’s core businesses or domestic diversification into a new industry—with the retail pharmaceutical and mini-mart fresh produce segments as the leading candidates. Each choice entailed its own set of risks and opportunities. Each presented new challenges for the leadership that would involve careful reflection about which new core capabilities the company needed to develop.

Exhibit 1: Mobile World’s Financial Performance, 2012–2015 (in VND millions)

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| **YEAR** | **2012** | **2013** | **2014** | **2015** |
| Average exchange rate in year (VND per US$) | 20,966 | 21,063 | 21,241 | 21,991 |
| Total net revenue | 7,331,001 | 9,498,849 | 15,756,725 | 25,252,733 |
| Growth rate (%) | 36.1 | 29.6 | 65.9 | 60.3 |
| Revenue from sale of goods | 7,289,064 | 9,784,136 | 15,679,168 | 25,251,007 |
| Growth rate (%) | 24.3 | 34.2 | 60.3 | 61.0 |
| Online revenue | 357,203 | 448,980 | 895,591 | 1,650,452 |
| Growth rate (%) | 15.1 | 25.7 | 99.5 | 84.3 |
| Service revenue | 41,937 | 39,386 | 77,558 | 330,370 |
| Growth rate (%) | 20.6 | –6.1 | 96.9 | 417.0 |
| Cost of goods sold | 6,057,138 | 8,091,484 | 13,360,606 | 21,322,245 |
| Growth rate (%) | 37.0 | 33.6 | 65.1 | 59.6 |
| Gross profit | 1,273,863 | 1,407,365 | 2,396,120 | 3,922,431 |
| Gross margin (%) | 17.4 | 14.8 | 15.2 | 15.5 |
| **NET PROFIT AFTER TAX** | **122,076** | **255,602** | **668,106** | **1,075,771** |

Source: Company documents.

Exhibit 2: Mekong Capital’s Vision Driven Investing framework

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| **Core Framework** | **Conditions at the Company** |
| Vision | Company has clear goal for 5–8 years. All key stakeholders are enrolled and aligned. Stakeholders refer to vision as long-term goal. |
| Drivers/annual milestones | Identified on an annual basis: measurable targets that lead to the vision being achieved. |
| Key performance indicators (KPIs) | 2–5 KPIs are tracked at least monthly. These connect to the drivers and annual milestones. If more than 5 KPIs, need to identify 5 most important. |
| Management and financial reporting | Company tracks actual versus target for all KPIs. Identify breakdowns and reinforce what is working. |
| Breakdown analysis | Use breakdowns to do analysis and learn from breakdowns to strengthen the organization. |
| **People** |  |
| Management team/human resource capability | Proactively recruit a strong team. Company needs internal capability to recruit and train the team. Company must invest in training the team. |
| Core values/culture | Need a clear set of core values consistent with the vision. Culture helps guide employee behaviours and actions. Employees who deal directly with customers must demonstrate core values. |
| Bonus system | Cash and bonus system must be gained with actions that lead to vision being achieved. |
| **External resources** |  |
| Corporate governance | Active, well-informed board of directors. No conflicts of interest. |
| Outside experts | Company actively engages outside experts: value-added independent board members, outside consultants, and third-party service providers. Company implements insights and best practices from outside experts. |
| Customer driven | Company organized around understanding what customer wants, how to improve customer experience and satisfaction, and what the market opportunity is. Products and services are developed accordingly. |
| **Scalability** |  |
| Focus | Company is focused on a single business, or related businesses with similar success drivers. There are no non-core businesses. |
| Enterprise resource planning (ERP) and process automation | Company has ERP/information technology system and automated processes that are reliable and scalable. Can generate timely reports useful for management and optimizing KPIs. ERP is a key management tool. |
| Delegation and accountability | No person can be a bottleneck in the company. Accountability and decision rights are clearly delegated. Have clear job descriptions and performance expectations. KPIs cascade down to each position. |

Source: Company documents.

1. [*Điện Máy Xanh*](https://www.youtube.com/watch?v=BJDa-C_9Cq8) in Vietnamese. [↑](#footnote-ref-1)
2. All currency amounts are in US$ unless otherwise specified. [↑](#footnote-ref-2)
3. VND = Vietnamese dong; VND1.00 = US$0.0001 on March 31, 2015. [↑](#footnote-ref-3)