Emerging global champions

Many global brands of the future will evolve from the developing world but they must first dispel Western perceptions of delivering poor value

By Kamini Banga

There was a new entrant in Interbrand's Top 100 Global Brands in 2010 – the first brand from an emerging market (EM) to make the list. In at number 85, it was Corona beer from Mexico.

Interbrand defines a global brand as one with at least 30% revenue from outside the home country, a presence in at least three continents, with no more than 50% revenue from a single continent. Who would bet against Corona being joined soon by brands such as Huawei (China), HTC (Taiwan), Tata (India), Mahindra (India), Bajaj (India), Marico (India), Ulker (Turkey) and Mediatek (Taiwan)?

These EM brands enjoy certain advantages over those from developed markets, such as rapid growth in their domestic economy, huge reserves of human capital, leapfrogging technology and low-cost innovation. But the journey to the global arena is not smooth. In India, companies are weighed down with the baggage of years of government subsidies, protectionist policies, low consumer expectation, supply constraints and controlled markets. And the strengths of EM brands can become disadvantages when they move to developed markets. For example, Tata in India, a $70bn giant conglomerate has over 30% of its business outside India, but still has to fight low quality, low price perceptions in developed countries.

Here are four specific challenges that EM brands face in trying to make the leap to be global champions.

PRICE AND VALUE FOR MONEY

These two are the key to success in emerging markets. Rather than over-engineer products, EM products address consumer needs and reflect local constraints – there's no point offering a Mercedes car when a bullock cart is the right vehicle for potholed roads. Whereas in developed markets, products are offered in larger pack sizes with cheaper unit prices, EM products are sold in smaller pack sizes or single servings at a cheaper unit price. This could make the difference between the consumer buying or not buying the product.

Low incomes mean single servings are easier to buy than locking up cash in larger packs. In India, entry price can make or break a brand. CavinKare launched Chik shampoo in 50 paise (one cent) sachets and sold a million sachets in just one Indian state in a year. Unilever sells Rexona deodorant sticks for around 16 cents and has 60% market share. The Nano car is another example of how

stripping down a product to bare essentials can offer an affordable product.

However, in mature markets, low prices turn into a disadvantage. EMs are equated with low priced products for impoverished consumers, resulting in low trust, perceptions

Huawei: expanding out of China into other markets, but it is still dwarfed by telecoms multinationals such as Nokia

of poor quality with no or low investment in R&D, and a lack of up-to-date technology. This is a deterrent to targeting new segments and geographical expansion. Historically, local players have been relying on MNCs for R&D, and IPR theft is not uncommon.

Spurious brands can sustain businesses in an environment where consumer literacy and awareness is low, but in the global arena, this means products that will fall short of international standards.

LOW MARKETING COSTS

Until recently, marketing has been irrelevant in EMs because consumer demand outstripped supply. Consumers are relatively less evolved, and are accustomed to plain sales, rather than brand communication. This has helped domestic companies to save on marketing costs.

The challenge in the global marketplace is their lack of branding skills. Local champions need to learn about product sophistication, design, aesthetics and consumer insight – areas where they lack the skills and are competing with brands in a sophisticated market with 'evolved' consumers.

Unlike their Western counterparts, domestic brands need to create consumer awareness in the global marketplace. Diaspora, overseas travel and advertising successfully created an awareness of foreign brands well before they had entered a country or a region. While champions from EMs are growing in size and moving into other markets (primarily other EMs), they still need to create brand awareness in developed nations – a very expensive proposition that could put an immense financial burden on their stretched resources

DISTRIBUTION

In the absence of high marketing budgets and the clout of organised retail, local champions rely on rewarding retailers with higher margins than competing brands in that area. Relationship and reward are the key factors in a complex distribution network with as many as 12 million outlets in India dominated by corner shops and 'mom'n'pop' stores.

A lack of skills in dealing and negotiating with large, organised retail chains means gaining access to trade and distribution is one of the biggest challenges for EM champions. Negotiating margins with a handful of giant retailers in developed countries is a function of clout, based on the size of business, and small players can be pushed off the shelves in no time.

SPEED AND SCALE

The size, diversity and unorganised nature of EMs demand a response in speed and scale. Local players are often operating in a single city or small region, which helps speed of response. In developed markets, however, market share gains are earned slowly by cost savings and product improvements – something EM champions do not understand.

At the global level, small size is a hindrance as lack of economies of scale and clout with retail become a roadblock to growth and expansion. Financial resources are limited in contrast to established MNCs, which have the luxury of transferring resources from countries to those that need them. For a sense of the size differential, compare Chinese telecoms giant Huawei with Nokia. Huawei has revenues of $23bn – less than half of Nokia's.

Champions from EMs are coming up with innovative solutions to these and other challenges, employing different strategies in their choice of country, consumer segments and products offered.

- Geographical expansion to countries similar to home markets, such as other EMs with higher or lower GDP. Large differences in per capita GDP may belie the similarities in consumer needs, behaviour and aspirations. The Indian Bajaj motor scooters, auto-rickshaws and three-wheelers have been available in Latin America and other emerging markets for some time. Godrej in India has been acquiring companies in haircare and personal products in Africa, the Middle East and South East Asia that, among other things, earns them access to distribution channels for their Indian brands. The Chinese computer brand Lenovo is available in almost every EM, with only 30% of its revenue coming from China.
- Target the spending power of diaspora across the world. Whether they are Chinese, Indians or Nigerians, they retain roots to home and seek products such as food and news from home countries for cultural connections. They carry dual passports and never really give up emotional citizenship of their home country. They form a strong loyal consumer base wherever they are. ICICI Bank offers a free 'Money2India' service that allows Indian workers in the US or elsewhere in the world to send funds in 13 different currencies to over 2,000 branches in 670 locations across India. The Indian food company, Patak, has become one of Britain's most successful brands by catering to immigrants in over

Ülker: Turkish food manufacturer that is heading for global brand status

40 countries, including India. Cemex, the Mexican cement giant, makes it convenient for Mexican diaspora in the US to pay for building needs that their families might have in Mexico.

- Serve price-sensitive segments in developed nations. They welcome products from EMs at cheaper prices, especially in a recession. Tata's Nano, the $2,500 car originally developed for India, Latin America, South East Asia and Africa, is being developed for European markets. The car is expected to retail at £4,000-£5,000, making it significantly cheaper than the competition. Mahindra tractors, manufactured for Indian farmers with just enough features to keep prices affordable, found a market in the US for weekend farmers who wanted inexpensive machines for a few days in the year. At around £15,000 complete with a front loader, the 54-hp Mahindra is by far the best at that price. It has more power and heavier steel, according to American rural residents.

By providing products at all price-points in mature markets, LG and Samsung broke the entry barrier and the monopoly of giant mobile manufacturers that were offering only expensive mobile phones. Haier refrigerators were a big hit with international students on shoestring budgets in US universities.

- Purchase or partner with high-end brands as a shortcut to gaining brand awareness and fighting perceptions of poor quality. Tata Motors bought Jaguar and Tetley tea in the UK, while Chinese car maker Geely has bought Volvo from Ford. In the 1980s, India's Hero Cycles joined Honda of Japan to create Hero Honda Motors, which soon became one of the market leaders in motorcycles in the world. By 2004, Hero Honda became the world's largest manufacturer of two-wheelers. Bajaj Auto in India partnered with Kawasaki from Japan to gain a premium image and is now partnering with Renault and Nissan to produce a £2,500 car to compete against Tata's Nano.
- Invest heavily in R&D to create high-end products to rival global brands. Huawei is slated to be the first truly global Chinese brand with 10% investment in R&D in places such as Stockholm, California's Silicon Valley, Jakarta and Bangalore. With revenues of $23bn, it is perhaps going to strike a mega-partnership with America's Sprint Nextel. Moser Baer in India is the second largest manufacturer of optical storage media in the world, selling floppy disks, CDs and DVDs in 82 countries, serviced through six marketing offices in India, the US and Europe. It enjoys strong tie-ups with all major global technology brands.
- Create niche brands for small groups of aware and sophisticated consumers or those whose needs are not met by mainstream products. Taj Hotel, a Tata company, is now buying hotels across the globe and rebranding them as Taj, marketing them as offering the luxury of the Indian heritage of palaces and maharajas. Dabur, among India's largest FMCG companies, relies entirely on natural ingredients and the principles of ayurvedic medicine for all its product formulations. It has bought Namaste Labs in Africa for ethnic hair care products, which will allow it to address large ethnic populations in the US and other mature markets.
- Take sector leadership in natural resources and raw material, as Mittal Steel has done by acquiring companies around the globe. Reliance Industries in India has taken global leadership position in polyester fibres, while Tata Chemicals is among the top producers of soda ash in the world. Vale in Brazil leads in iron ore and pellets, and Basic Element in Russia in aluminium production.
- Build brands based on unique strengths, such as Bollywood from India and Shanghai Tang boutique from China.
- Disrupt the dominant paradigm to wrest advantage from incumbent behemoths. Mediatek from Taiwan has been ranked number six in Asia's 200 most admired companies in 2010 by the *Wall Street Journal.* It is the game-changer in the highly innovative telecom industry. Traditional mobile phone space consisted of three big players – phone manufacturers, chipset providers and wireless carriers. The first two collaborated and sold the mobile phones to the third part of the triad, which sold the phones to consumers. Mediatek changed the rules by producing all the hardware and the software, obviating the need for large OEMs and carriers. There are now thousands of small entrepreneurs in China selling the entire package at much cheaper rates to consumers.

GLOBAL CHALLENGERS

EM challengers will use one or a combination of these strategies to become global. Which of these will succeed? There are as many views as there are contenders.

Professor Rajeev Batra of the University of Michigan – who (with professors Chattopadhyay of INSEAD and Ozsomer of Koc University) has just finished research for a book on global brands from EMs – suggests a two-phase strategy adopted by these EM champions. In Phase 1, they offer lower-priced brands or supply OEMs, retail, commercial and industrial segments, or B2B segments. In Phase 2, they add higher-end brands and go direct to consumers, as was the case with LG, or they acquire existing foreign brands.

However, what Batra finds interesting is the route taken by a small but growing number of EM challengers to build their own global brands. They are following a formula of innovation in low-cost but high-return R&D, 'lean' running of their businesses, using ultra-low-cost guerrilla marketing, and leveraging innovation to gain awareness and dispel any poor-quality perception.

This 'new wave' of EMMNCs will become much more dangerous competitors to MNCs from developed markets in the years to come, and this will be an entirely new phase in global competition.

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