Emerging Market Champions Go Global

There is a new entrant in the Interbrand's top 100 global brands for 2010; in a list dominated by brands from the US and Europe, at number 85 it is Corona beer from Mexico – the first brand from Emerging Markets (EMs). Interbrand consultancy 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. Asia has a total of 8 global brands: two from Korea and six from Japan. Just as Hyundai, Samsung, Toyota, Panasonic and Nintendo have become part of our brand lexicon, soon some new brand names may join the ranks of the big players on the High Street and Wall Street; names like Huawei, HTC, TATA, Mahindra, Bajaj, Marico, Ulker, Nano and Mediatek. They all have one thing in common – they are from Emerging Markets. It would not be surprising to find these brands going global as share of the world's GDP shifts from the developed world.

There is growing evidence of brands from EMs that have global ambition as they get fuelled by rapid growth in their economy and are driven by, among others, resources such as human capital, leapfrogging technology and low cost innovation that are proving to be an advantage over business models in developed nations. They are already operating in several countries and have global production and R&D facilities.
However, the journey to the global arena is not smooth, so what will it take for these champions to emerge as global brands like Coca Cola, Microsoft, Google, Apple and Nokia? In India they carry the baggage of years of government subsidies, protectionist policies, low consumer expectation, supply constraints, and controlled markets. However, they are savvy enough to finds a way out of these – coined as '*jugaad' (*"overcoming harsh constraints by improvising an effective solution using limited resources") in the new management lexicon.

However, strengths of these champions in local markets 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. So what are the challenges in making the transition from being an EM champion to growing into a global brand:-

1. **Low prices and VFM** –
   These two are the key to success in Emerging Markets. Rather than over-engineered products, products that address consumer needs and constraints are critical. For example, there is no point in offering a Mercedes car when a bullock cart is the right vehicle for unpaved road with potholes. In developed markets, larger pack sizes mean cheaper unit price compared to smaller pack sizes. In contrast, local markets offer small 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 stocking up large packs. Entry price can make or break a brand. CavinKare, India launched Chik shampoo in 50 paise (1 cent) sachets and over a year sold about 1 million sachets in just one Indian State. Unilever sells Rexona deodorant sticks for around 16 cents helping it grab 60% of the market in India, the Philippines, Bolivia and Peru. The Nano car is also a good example of how stripping down a product to bare essentials can offer a price advantage critical for bottom of the pyramid.
   Unfortunately in mature markets low prices turn into a disadvantage; EMs are equated with low priced products for impoverished consumers resulting in low trust, perceptions 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.

2. **No or low marketing costs** –

   Until recently, marketing has been irrelevant in Emerging Markets because of consumer demand outstripping supply. Consumers are relatively less evolved and accustomed to plain sales talk more than branding. This has helped domestic companies save on marketing costs and despite cheaper prices compared to their MNC competitors still end up having similar profitability.

   The challenge in the global marketplace is the lack of branding skills. Local champions need to learn about product sophistication, design and aesthetics, 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 market place. 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 Emerging markets 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 immense financial burden on their stretched resources

3. **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 network making up the distribution system with as many as 12 million outlets in India dominated by corner shops and mom-and-pop stores.

   A lack of skills in dealing and negotiating with organised retail means gaining access to trade and distribution is one of the biggest challenges for EM champions who are dealing with petty traders and unorganised retail in home countries. 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.

4. **Speed and scale critical** –

   Diversity, large size and unorganised nature of Emerging Markets demand speed and scale. Local players are often operating in a single city or in a small region. This helps speed of response without encumbering them with moving a large organisation.

   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 scale, small size is a hindrance as lack of economies of scale and clout with retail become a road block to growth and expansion. Financial resources are limited in contrast to established MNCs that have the luxury of transferring resources from countries to those that need them. For a sense of the size differential, compare Huawei a Chinese telecom solutions provider with revenues of $23bn that are less than half the size of Nokia.

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:-

a) Geographical expansion to countries similar to home markets such as other EMs with higher or lower GDP. These markets have a lot in common and therefore sometimes 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 now. Godrej in India has been acquiring companies in hair care 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.

b) Targeting spending power of diaspora across the world. Far away from home, looking to connect with their roots whether they are Chinese, Indians or Nigerians, seeking products such as food, news etc from home countries for cultural connections, they carry dual passports becoming citizens of their host country but never really giving 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 2000 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 40 countries including India. Cemex, the Mexican cement giant makes it convenient for Mexican diaspora and immigrant working population in the US to pay for building needs that their families might have in Mexico.

c) Serving price sensitive segments in developed nations; despite significantly higher per capita GDP, there are large segments of consumers for whom price is critical. They would welcome products from developing nations at cheaper prices. This has become even more relevant when recession is coming to bear significantly on the shopping basket. Tata's Nano, the $2500 car originally developed for India, Latin America, Southeast Asia and Africa, has changed the dominant paradigm in developed nations and now there is a move to develop a Nano Europe for mature markets at lowest prices and relevant safety features. The car is expected to retail at £4000-£5000 making it significantly cheaper than any of its competitor in Europe. 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 in the US universities who were operating on shoestring budgets.

d) Purchasing or partnering with high – end brands; this is a shortcut to gaining brand awareness and fighting perceptions of poor quality. Apart from the much hyped Tata Motors buying Jaguar and Tetley tea in the UK, Geely the Chinese carmaker has bought Volvo from Ford. In the 80s, Hero Cycles the largest Indian bicycle manufacturer in the world joined Honda of Japan to create Hero Honda Motors which soon became one of the market leaders in motor-cycles in the world. By year 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 £2500 car to compete against Tata's Nano.

e) Investing heavily in R&D for creating hi-end products to rival global brands. Huawei, the largest Chinese telecommunications solutions company, is slated to be the first true global Chinese brand with 10% investment in R&D across countries like Stockholm, Dallas, 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, and enjoys strong tie-ups with all major global technology brands.

f) Creating niche brands that are 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 migrating them to the highly successful Taj hotel brand that has aggressively marketed itself as offering luxury of the Indian heritage of palaces and *maharajas*. Dabur, among India's fourth largest FMCG companies, relies entirely on natural ingredients and the *ayurvedic* medicine for all its product formulation s. It has bought Namaste Labs in Africa for ethnic hair care products - this will allow them to address large ethnic population in the US and other mature markets.

g) Taking 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 and Tata Chemicals is among the top producers of soda ash in the world. Vale(Brazil) leads in iron ore and pellets and Basic Element in Russia in alumina production.

h) Building brands based on unique strengths such as Bollywood from India, Shanghai Tang boutique from China, Infosys/ Wipro / TCS creating and riding the Indian IT brand.

i) Disrupting dominant paradigm to wrest advantage from incumbent behemoths; Mediatek from Taiwan has been ranked number 6 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 that 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 thousands of small entrepreneurs now in China selling the entire package at much cheaper rates to consumers.

There is an entire stable of challengers rising from Emerging Market and these stars will use one or a combination of these strategies to become global. Which of these will succeed and which will succumb? There are as many views as there are contenders.

According to Prof Rajeev Batra of the University of Michigan who (with co-authors Profs Chattopadhyay of INSEAD and Ozsomer of Koc University) has just finished research for their forthcoming book on global brands from EMs, the findings suggest a two phase strategy adopted by these EM champions:

In Phase 1, offering lower priced brands or supplying OEMs, retail, commercial and industrial segment or B2B segments. In Phase 2, adding higher end brands and going direct to consumers as was the case with LG or by acquisition of existing foreign brands. However, what is interesting they think is the route taken by a small but growing number to build their own global brands by following a formula of innovation in low-cost but high-return R&D ; in the "lean" way they run their businesses; in the ultra-low-cost guerrilla marketing they employ -- and using that innovation to gain awareness and dispel poor-quality imagery. 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.