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WHY MNCs ARE STILL WINNING BIG IN EMERGING MARKETS

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THE GLOBAL BUSINESS LANDSCAPE has changed radically since the financial crisis of 2008–2009. But a fundamental reality remains: despite their volatility and differing economic fortunes, emerging markets are critical to the growth of global companies. While the pace is slower than it was in the precrisis years, the aggregate GDP of emerging markets is projected to grow around 2 percentage points faster than that of developed economies for the foreseeable future. These markets will account for around 40% of all consumer spending—more than \$20 trillion—by 2020.

As many established multinational corporations have learned over the years, however, winning in emerging markets isn't easy. Business environments can be difficult, bureaucracies can be hard to navigate, and infrastructure is often poor. Yet some MNCs still manage to succeed where many others fail. In some cases, incumbents capture important growth opportunities despite intense competition from savvy domestic players.

The Boston Consulting Group has been documenting and analyzing the success formulas of global challengers originating in emerging markets for more than a decade. (See *Global Leaders, Challengers, and Champions: The Engines of Emerging Markets*, BCG report, June 2016.) Recently, we have begun to more systematically study traditional MNCs based in developed economies that are succeeding in emerging markets. This work has revealed that these organizations get a number of things right. For example, winners typically have strong commitment from their boards to invest in emerging markets, they send top-notch managers into the field, and they excel at recruiting and grooming local talent.

Six Secrets of Success

We studied 55 MNCs, representing sectors as diverse as consumer and industrial goods, telecommunications, and health care, that have succeeded in one or more emerging market. In most cases, these companies are at least among the top five in their industrial sectors, both globally and

in a specific emerging market or region. We also focused on companies that have a growing, or at least a stable, share of those markets. We identified common factors that distinguish winning MNCs:

- Smart market entry and expansion
- Innovative products and pricing
- An intimate understanding of consumers and how to meet their needs
- Fast and widespread delivery of goods
- A focus on tackling the talent agenda
- Strong stakeholder engagement

Much of the success of winning MNCs can be attributed to smart strategies that tailor these success factors to the circumstances of specific emerging markets. These companies approach each market with a deep understanding of local conditions, consumer trends and sentiments, emerging opportunities, and the competitive environment. They carefully think through strategies and execution for each stage of their business engagement in that market. And they are ready to adapt and innovate as necessary.

A differentiated approach to emerging markets is all the more critical in a global business landscape that is being radically redefined by rising economic nationalism and the rapid spread of digital technologies. Companies must increasingly navigate a world in which growth is slower, more fragmented, and more multipolar. (See “The New Globalization: Going Beyond the Rhetoric,” BCG article, April 2017.) Skilled deployment of digital technologies and social media is becoming increasingly important to success in emerging markets, where people and businesses are becoming more and more interconnected thanks to mobile devices and the internet.

Smart Market Entry and Expansion

When entering a new region, winning MNCs tend to begin in a mature market and then

expand outward. Depending on the industry, the entry point for northern Africa is often Egypt or Morocco, for example, while many companies enter Nigeria before expanding into neighboring western African markets. In India, many MNCs begin in the subcontinent’s largest cities and then venture into smaller cities and rural areas.

In an example going back to the early years of the 20th century, Bosch opened its first Southeast Asia operation in 1923, in what was then the British colony of Malaysia. It was not until 1994 that the company formed a joint venture in Indonesia, as well as a representative office in Vietnam. After another wave of expansion, in Laos in 2012 and Myanmar in 2013, Bosch now has a presence in all ten ASEAN member nations, in businesses spanning automotive, consumer goods, and energy.

Another factor that distinguishes MNC winners is their flexible approach to launching or expanding businesses in emerging markets. Depending on location and circumstances, such companies may opt for joint ventures, franchises, mergers and acquisitions, or greenfield investments in wholly owned enterprises.

Schneider Electric has used a combination of entry and expansion strategies to build a large presence in India. The company formed a joint venture to manufacture circuit breakers in 1992 and opened a wholly owned subsidiary in 1995. Since 1999, Schneider has used a string of mergers and acquisitions to dramatically expand its energy management and automation systems businesses, which now include 29 factories and 61,000 employees. (See the sidebar “How Adept Acquisitions Made Schneider a Solar Power in India.”)

Olam International has likewise used several strategies to build its wheat and rice milling business in Africa, which accounts for more than 20% of the company’s total revenue. Since acquiring Crown Flour Mills in Nigeria in 2010, Olam has expanded in that country and has entered Ghana, Senegal, and Cameroon through both greenfield investments and acquisitions.

HOW ADEPT ACQUISITIONS MADE SCHNEIDER A SOLAR POWER IN INDIA

Schneider Electric has long held a strong reputation at the high end of the global market for energy management and automation systems, counting among its customers some of the world's most advanced oil and gas facilities, mines, and food and beverage plants. Over the past few years, Schneider has also emerged as a leader in bringing solar power directly into homes in remote, impoverished villages in India. The keys to its success include product innovation, strong engagement with local stakeholders, and smart acquisitions that have enabled it to expand into new markets.

Schneider entered India in 1992, when it acquired circuit breaker manufacturer Merlin Gerin, which at the time was in a joint venture with an Indian company. Schneider formed a wholly owned Indian subsidiary in 1995 and four years later bought a 74% stake in home electronics company Luminous Power Technologies—a deal that enabled it to jump into the market for lower-end consumer products and a broader range of customers. The acquisition also gave Schneider the market knowledge, distribution, and approach to product development and manufacturing needed to penetrate the subcontinent's challenging—but enormously promising—mass market for home solar-energy solutions.

Today, India has played a big part in making Asia-Pacific Schneider's fastest-growing region. Schneider India is the nation's third-largest energy management company, with 29 factories, some 60,000 points of sale, and more than 21,000 employees—including 1,500 R&D staff. Its portfolio of businesses spans process controls, power suppliers, utility management systems, smart-electrical-network management, and critical power supply.

Schneider commands 20% of India's rapidly growing solar-power market,

offering power generation systems for large commercial and utility applications as well as small, rooftop systems. India was projected to be the world's third-largest solar market by the end of 2017. By 2022, it aims to be producing 100 gigawatts of solar power—compared with around 12 gigawatts today.

In 2014, Schneider introduced Luminous solar inverters, developed specifically for the Indian market—one for commercial use and another for “off grid” systems that enable homes to generate energy without the expense of connecting to the public power grid. The products are particularly well suited to advancing the government's policy focus on “mini” and “micro” power grids that can supply affordable power to disadvantaged households, particularly in rural areas. In 2016, Schneider bought the remaining 26% stake in Luminous.

Schneider also promotes renewable energy through the Schneider Electric India Foundation. So far, the foundation has helped establish 263 centers that have trained 68,000 young electricians in 26 Indian states. The foundation has also nurtured a network of more than 120 entrepreneurs who offer battery-charging services for energy-efficient lighting systems and solar-power distribution in remote villages.

Schneider has aggressively pursued mergers and acquisitions to further its growth in other businesses in India. Recent acquisitions, which include Indian providers of digital metering and energy management solutions, video security for buildings, structured cabling, and data center infrastructure, have enabled Schneider to expand its capabilities in developing innovative energy solutions.

Innovative Products and Pricing

Upon entering a new emerging market, it is essential that a company bring products that are right for local consumers and the local environment—at prices that customers can afford. Many of the most successful MNCs offer both their existing brands and goods and services that are adapted to the needs and preferences of low-income consumers. Many have also found innovative ways to overcome the infrastructure challenges that are common in developing economies, such as limited access to electricity and good roads.

Diageo has found big growth opportunities at the “bottom of the pyramid” in East Africa through smart product and price strategies. The company commands a major share of the lager beer market in Ethiopia, Uganda, and Kenya, in large part thanks to its Senator Keg brand. The beer is made of locally grown barley, sells for only 40 cents for a 500 milliliter serving, and tastes good without refrigeration. (See the sidebar “How Innovation Enabled Diageo to Capture East Africa’s Lager Market.”)

Similarly, Unicharm, which controls two-thirds of Indonesia’s baby care market, illustrates the power of product innovation in local markets. One key to Unicharm’s success is mass-market diapers that cost 40% less than major competitors’ products. To cut costs, Unicharm uses different materials and production equipment than its competitors and relies on local suppliers.

An Intimate Understanding of Customers and How to Meet Their Needs

Another common differentiator of winning MNCs is their keen understanding of customers in individual emerging markets—knowledge they use to build their brands. Brand loyalty can be far stronger in emerging markets, where households entering the middle class and the ranks of the affluent are purchasing certain categories of products for the first time, than in mature markets.

Savvy marketing and branding strategies have been key to Starbucks’ impressive suc-

cess in China, where it has enjoyed rapid growth despite mounting competition from copycat coffee shop chains. Starbucks has been especially skilled at using digital marketing tools, such as online promotions, social media communities, and strong mobile apps for locating stores, processing payments, and managing membership rewards. (See the sidebar “How Innovative Marketing Helped Starbucks Expand in China.”)

Smart marketing can also help an MNC turn around a struggling business. Gillette, for example, initially had limited success in India. But it went on to capture 70% of the country’s razor market after it introduced Gillette Guard, a razor tailored to Indian consumers that is much easier to clean and costs much less than the company’s conventional products. Gillette also de-emphasized complex digital marketing campaigns and switched to more traditional TV and movie theater ads featuring Bollywood stars, which Indian consumers still prefer.

Fast and Widespread Delivery of Goods

Even when companies have the right products, getting them to consumers can be a significant challenge in developing economies that have inadequate transportation infrastructure, especially beyond the major cities. A number of winning MNCs have found creative ways to distribute in rural areas. In many cases, they invest to develop their own distribution networks.

Coca-Cola’s strength in supply chain management, for example, has been instrumental to its success. In Mexico, where the company has a leading share of the soft-drink market, its eight bottling companies distribute Coca-Cola products in rural areas. In Africa, by contrast, the company has set up microdistribution centers that it supports with small loans, training, and advertising programs in order to cover difficult-to-reach locations.

Winning MNCs also make innovative use of digital technology and media to reach emerging-market consumers. L’Oréal is maintaining its lead in China, for example,

HOW INNOVATION ENABLED DIAGEO TO CAPTURE EAST AFRICA'S LAGER MARKET

When Diageo was formed in 1997 from the merger of Guinness and Grand Metropolitan, the new company acquired an African outpost with a long legacy. Guinness began shipping its stout to Sierra Leone in 1827 and built a brewery in Nigeria in 1963, its first outside of Ireland.

Today, thanks to a methodical expansion strategy over the past two decades, Diageo has a strong position in one of the world's fastest-growing regions for beer and spirits consumption. The company is the market leader in spirits in South Africa and the second-leading seller of beer in Nigeria; annual sales in the East African nations of Ethiopia, Uganda, and Kenya—where Diageo commands 75% of the lager market—have climbed from \$451 million in 2009 to more than \$700 million. Through wholly owned subsidiaries, joint ventures, and licensees, it distributes numerous beer brands, as well as spirits such as Johnny Walker and J&B Scotch whisky and Smirnoff vodka.

Among the keys to Diageo's success are a flexible strategy for entering and expanding in different African markets, an innovative approach to products and pricing, and a business strategy that is aligned with the goals of governments and other stakeholders.

Diageo's push to build a continental presence began when it acquired East African Breweries (EABL)—with which it had been marketing a beer called Tusker—and listed the company on the Nairobi stock exchange. Three years later, the brewery introduced its breakthrough lager, Senator Keg, which made beer affordable to the masses.

The introduction of Senator Keg also helped the Kenyan government achieve an important objective. At the time, half

the beer drinkers in Kenya consumed unregulated, illegal brews costing as little as 10 cents for a 30 milliliter plastic sachet. Bootleg beer deprived the government of tax revenue and was regarded as a public safety risk. Using only locally grown barley—but not hops—as Senator's primary ingredient, EABL kept production costs so low that it could sell a 500 milliliter serving for around 40 cents. The beer is packaged in kegs with a specially designed plastic hand pump, rather than more expensive hardware, and it tastes good even without refrigeration.

Diageo has expanded across much of the continent through acquisitions and other methods. In 2010, it acquired Tanzania's Serengeti lager brand for \$60 million. The following year, it bought Kenya Breweries. It also acquired brands in Ethiopia and South Africa. In other cases, Diageo has opted for solely owned companies, partnerships, and licensee relationships. In Nigeria, it has majority control of a Guinness subsidiary. In South Africa, it is part of a joint venture to distribute spirits. It operates through licensees in the Democratic Republic of Congo, Mali, Gambia, Chad, Togo, Ivory Coast, and other African nations.

Although currency devaluations have recently affected revenues in some African markets, Diageo's healthy margins and market share leave it in a strong position to keep growing along with the region's economies.

HOW INNOVATIVE MARKETING HELPED STARBUCKS EXPAND IN CHINA

Almost immediately after Starbucks brought high-end, handcrafted beverages to tea-drinking China by opening a Beijing store in 1999, the copycat coffee shops began to appear. But in contrast to many multinationals that have pioneered industries in China, Starbucks was not deterred. Today, it has nearly 3,200 stores across China.

Among the keys to Starbucks' success has been an innovative marketing and brand-building campaign based on the company's intimate understanding of Chinese consumers. Another has been a smart expansion strategy that gave Starbucks better control over its business.

Starbucks positioned itself squarely as a premium coffeehouse experience in China and invested heavily to establish its brand as a status symbol in order to differentiate itself from other coffeehouse chains. Its bet was well placed: between 2007 and 2012, for example, sales at Starbucks coffeehouses in China surged by around 200%.

Starbucks began in China's biggest, most cosmopolitan cities, opening a store in Shanghai a year after entering Beijing. In 2005, it expanded into the southern cities of Guangzhou and Shenzhen, and then into second-tier cities with large and growing concentrations of middle-class and affluent households.

Starbucks has used a targeted marketing approach in China. Its stores are different from those in the US and Europe, featuring fewer, larger tables, rather than solitary spaces, so that customers can mingle. And it has deployed a full range of digital tools and activities to promote coffee consumption and customer engagement. For example, it introduced a reward card system that tracks customers' purchase history and offers several

tiers of membership status. Starbucks has 83,000 fans on the social media site Renren and nearly 1.4 million followers on Sina Weibo.

Starbucks has also boosted its investments in its China operations. The company bought out its partner, Maxim's Group, in 2011. In 2017, it acquired the remaining stake in its East China joint venture for \$1.3 billion, giving it full ownership of some 1,300 stores in Shanghai and in Jiangsu and Zhejiang provinces. Starbucks has also opened a farmer support center in Pu'er in Yunnan province, where farmers can get free access to the latest findings from top agronomists on such topics as advanced soil management techniques. Starbucks has begun using domestically grown coffee in some blends that are sold internationally.

These moves have put Starbucks in a stronger position to aggressively expand. Since 2005, the number of stores has increased nearly fivefold. Starbucks established around 500 new stores in 2015 and 2016 alone. It now commands around 60% of China's still-emerging coffeehouse market. Same-store sales in China rose by 7% in 2017, compared with around 3% in the Asia-Pacific region as a whole.

The company envisions no slowdown. It plans to have more than 5,000 stores in China by 2021. In 2016, Belinda Wong, the head of Starbucks' China operations, told Hong Kong's *South China Morning Post* that the company is still in "the early chapter of our China growth."

with the help of local e-commerce partners such as Tmall and Alibaba. L'Oréal's Makeup Genius app allows women to "try on" cosmetics virtually on their mobile devices; the app has been downloaded by 5 million users.

A Focus on Tackling the Talent Agenda

Execution in emerging markets depends heavily on the quality of talent and the local organization. Winning MNCs invest in attracting and developing local talent at all levels. In addition to training, some MNCs offer programs to encourage the personal growth and long-term success of employees.

A good example of effective people management is the logistics company Bolloré, which is making big new investments in African shipping ports. The company employs 25,000 people in 45 countries on the continent and invests heavily in training to support its long-term growth. Bolloré has trained more than 700 people since 2008 at its Pan-African Training Center, the first of its kind in Africa. Another example is General Electric, which partners with the African Leadership Academy to train leaders on the continent, one of the company's strongest growth regions; GE has also launched an advisory board to consult on the development of technical engineering skills in Africa.

Strong Stakeholder Engagement

Many of the winning MNCs we have studied forge strong relationships with local and regional governments and other community stakeholders that prove invaluable to their long-term success. They also align their activities with the sustainable-devel-

opment goals of local leaders and embed corporate social responsibility into their strategies.

Close collaboration with Brazilian government agencies has been key to the steady growth in South America of Bayer Crop-Science, a division of the German chemical and life sciences company that provides crop management services. Bayer Crop-Science is helping develop innovative digital farming solutions. The company uses tablets to collect and share data from farms in real time, for example, and maintains large research centers across Brazil to experiment with growing soybeans in different climates.

Philips Lighting's business in Africa has likewise found innovative ways to overcome infrastructure problems and meet local needs. In addition to developing low-cost LED and solar-powered lighting solutions, the company has begun to establish 100 "community light centers" across the continent that both sell its products and help low-income populations not connected to power grids.

THE GLOBAL BUSINESS environment is becoming more complex, challenging, and brutally competitive. But the experiences of a number of MNCs show that emerging markets still abound in growth opportunities for companies that adopt the right business models. The success formula will vary from market to market and from industry to industry, and often must be adapted to a rapidly shifting landscape. To succeed in emerging markets, companies should be flexible, have a deep understanding of local opportunities and conditions, and be ready to innovate boldly.

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