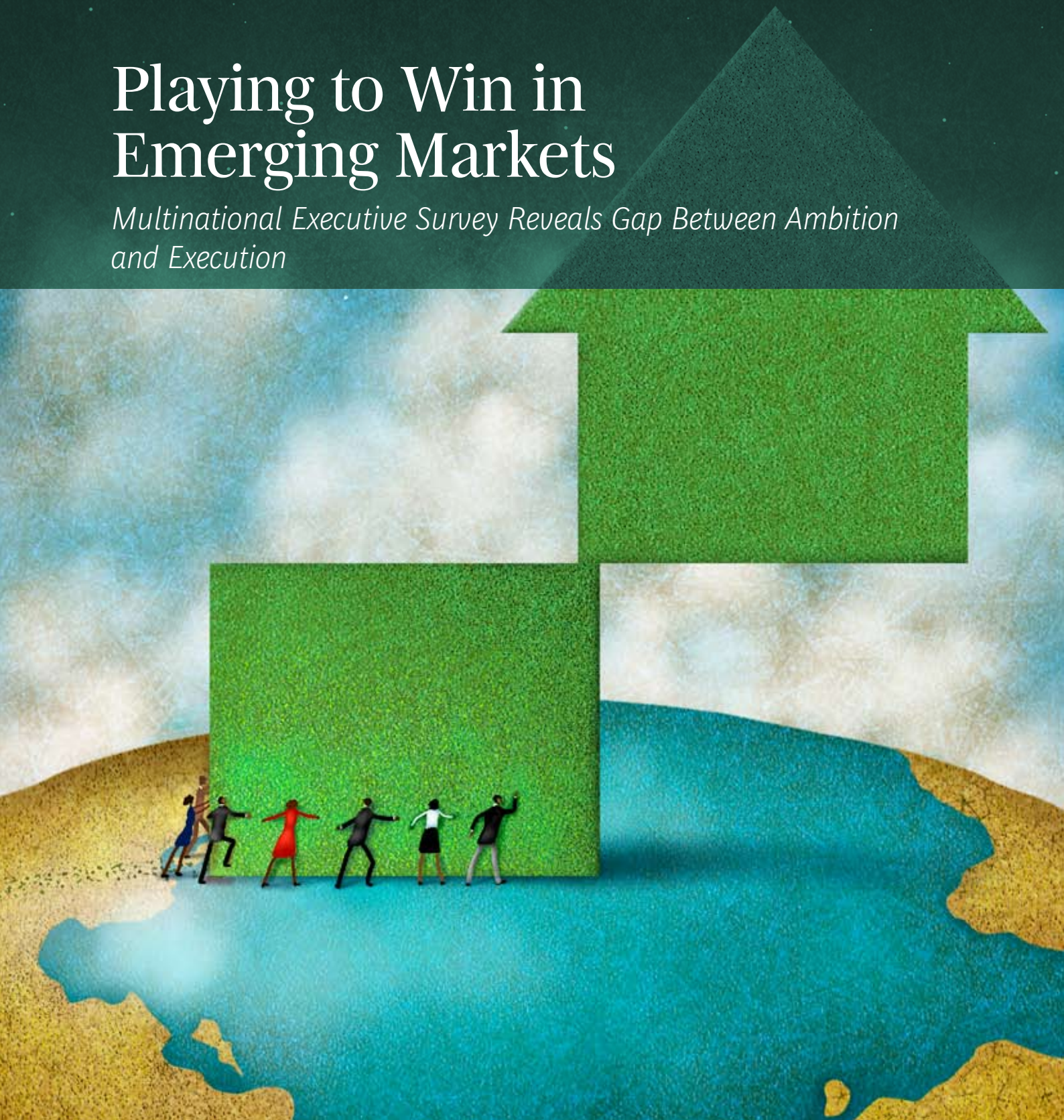


Playing to Win in Emerging Markets

Multinational Executive Survey Reveals Gap Between Ambition and Execution



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THE BOSTON CONSULTING GROUP

Playing to Win in Emerging Markets

*Multinational Executive Survey Reveals Gap Between Ambition
and Execution*

**Amitabh Mall, David C. Michael, Lori Spivey, Andrew Tratz, Bernd Waltermann, and
Jeffrey Walters**

September 2013

AT A GLANCE

We surveyed more than 150 top executives to understand their performance and priorities in emerging markets and to identify the critical capabilities that enable companies to succeed in these markets.

PRIORITIES AND AMBITIONS

China is the most important priority for respondents in our survey, but it is not the only one: more than half cited Brazil or India as well. More than three-quarters of the respondents expect their companies to gain share in these markets, yet only 13 percent are confident that they can take on local competitors.

PERFORMANCE GAP

The most important capabilities in emerging markets—support and direction from headquarters, strong local talent, market knowledge, and tailored business models—are those in which respondents said their companies fall short.

WINNING

Growth in emerging markets can mask weakness in key capabilities. A practical checklist developed by BCG helps to pinpoint specific steps for improving performance.

EMERGING MARKETS ARE MORE important than ever, and they make up a large share of many multinational companies' revenues and growth. Yet even so, multinationals have not mastered these markets. That's because they are not playing to win.

The BCG Globalization Readiness Survey, a recent poll of more than 150 top executives in multinational companies, revealed a large gap between the aspirations of these companies in emerging markets and their performance on key capabilities—especially when it comes to attracting and retaining local talent. (See the sidebar “Who We Surveyed and What We Asked.”) Among the key findings:

- Multinationals have large ambitions in emerging markets: more than three-quarters of the companies, or 78 percent, expect to gain share in these markets. Nevertheless, only 13 percent are confident that they can take on local competitors. (See Exhibit 1.)
- Nearly three-quarters, or 73 percent, of respondents said that local companies are a major competitive threat. (See Exhibit 2.)
- On average, multinationals told us that only 9 percent of their top 20 executives are based in emerging markets; the vast majority of them are still located in mature markets far away.
- Despite reports of slowing growth in China, 57 percent of respondents named the nation as the most important emerging market.

Multinational companies have the right priorities but need winning practices.

The survey suggests that multinational companies have the right priorities—emerging markets are the growth spots of the future—but have not fully put in place winning practices.

Many Markets, Many Priorities

China is the most important priority for multinationals, but it is not the only one. Brazil and India were each cited by 57 percent of respondents as an important market, followed by Southeast Asia and then Russia. (See Exhibit 3.)

Almost one-third of participants cited Mexico as either a major priority or a top priority, while one-quarter rated either the Middle East and North Africa; Latin

WHO WE SURVEYED AND WHAT WE ASKED

The 156 executives who completed the BCG Globalization Readiness Survey work for a wide variety of multinational companies. Industrial goods companies employ more than one-third, or 37 percent, of the respondents. Other industries with strong representation in the survey are consumer goods (22 percent); technology, media, and telecommunications (10 percent); financial services (9 percent); and health care, professional services, and energy (each 6 percent). Of the respondents, 30 percent work for companies based in the U.S. and Canada, 49 percent for companies headquartered in Western Europe, 7 percent for companies based in Japan, 3 percent for companies headquartered in other developed Asia-Pacific markets, and 11 percent for companies based in emerging markets.

Nearly half of the executives, or 47 percent, work for companies with annual revenues exceeding \$10 billion. One-third work for companies with \$1 billion to \$10 billion in sales. The remainder work for smaller companies.

We asked executives to answer a few general questions about their companies' activities across all emerging markets. We also asked them to answer more detailed questions about performance, capabilities, and competition in a single emerging market that was critical to their company and that they felt they understood well. About half, or 52 percent, chose China. Other markets and regions that were heavily favored include Latin America (12 percent); Eastern Europe and Russia, India, and Southeast Asia (each 10 percent); and the Middle East and Africa (8 percent combined). Please note that because these figures have been rounded, they do not add up to 100.

We derived the performance gap by measuring the respondents' ratings of importance of each of 13 capabilities on a scale of 1 (low) to 5 (high) and each respondent's company's performance on the same scale. The performance gap is the difference between their performance and importance scores.

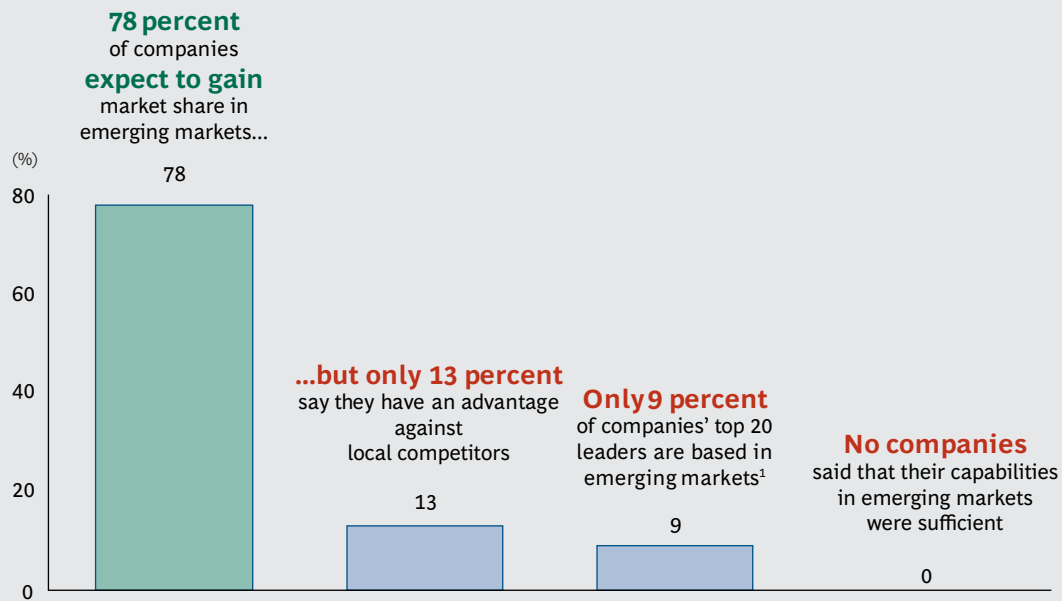
America (excluding Brazil and Mexico); or Eastern Europe as a major priority or a top priority.

Sub-Saharan Africa is also starting to receive attention: 17 percent of respondents cited it as an important priority. The interest in sub-Saharan Africa also varies by location and industry: 27 percent of Japanese companies, 24 percent of emerging-market-based companies, and 23 percent of consumer goods companies view the region as an important market.

Emerging but Mainstream Markets

Emerging markets contribute an average of 28 percent to the overall revenues of the surveyed companies. While this share is lower than emerging markets' 38 percent contribution to global GDP in 2012, multinational companies depend on

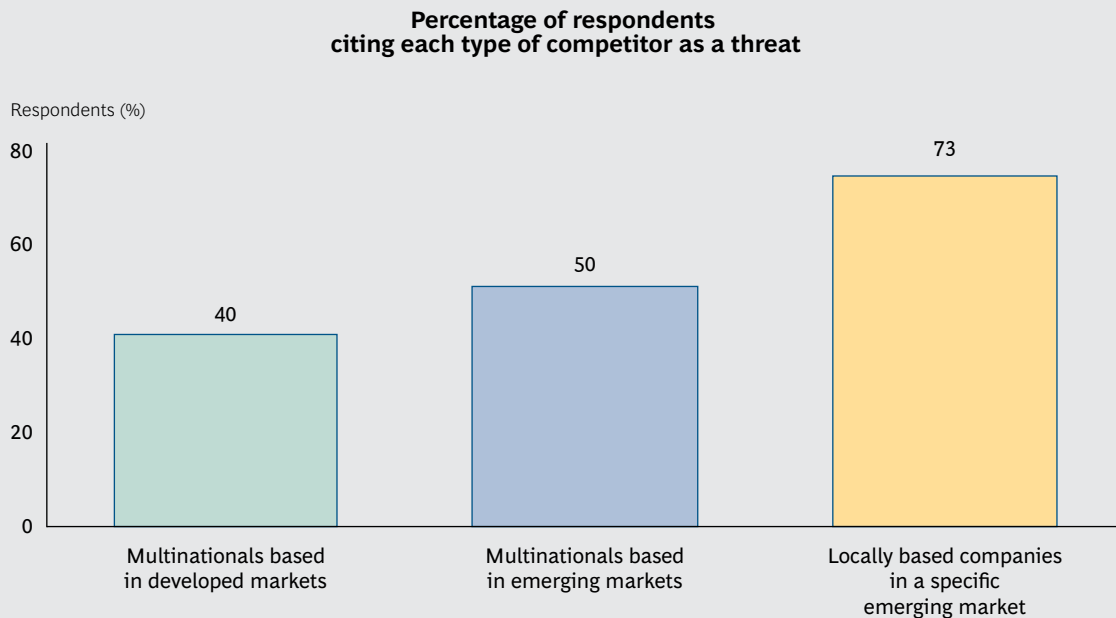
EXHIBIT 1 | Survey Responses Reveal a Gap Between Multinational Companies' Ambition and Execution in Emerging Markets



Sources: BCG Globalization Readiness Survey; BCG analysis.

¹Responses are limited to executives from mature markets.

EXHIBIT 2 | Most Executives See Local Competitors as a Major Threat in Emerging Markets



Sources: BCG Globalization Readiness Survey; BCG analysis.

EXHIBIT 3 | Multinational Companies Consider the BRIC Nations and Southeast Asia to Be Top Markets



Sources: BCG Globalization Readiness Survey; BCG analysis.

¹Excluding Brazil and Mexico.

these markets to make up the growth that was once supplied by mature markets. Daimler, for example, has increased its share of revenues from Asia and emerging markets to 30 percent from less than 10 percent a decade ago. The company expects nearly all of its future growth to come from these markets.

Performance and Priorities

We asked the executives first to assess the relative importance of 13 capabilities in emerging markets: growth targets and execution plans, top leadership support, adequate investment, localized business models, localized products, effective sales and distribution, market and customer knowledge, attraction and retention of talent, capable local organization, strong local leaders, working within cultural context, local partnerships, and working with local governments. We then asked the executives to evaluate their companies' actual performance against those dimensions. A remarkably consistent picture emerges.

- Top-level executives at headquarters must help set ambitious plans and targets and provide senior leadership support.
- Strong local talent can make the difference between frustration and success.
- Market knowledge and tailored business models are essential.
- A broad portfolio of abilities is vital: all 13 capabilities were deemed important or very important.

What's more, the most important capabilities are also precisely the ones in which companies believe that they fall short. Most notably, executives said that their companies demonstrated the largest performance gap in attracting and retaining talent. (See Exhibit 4.)

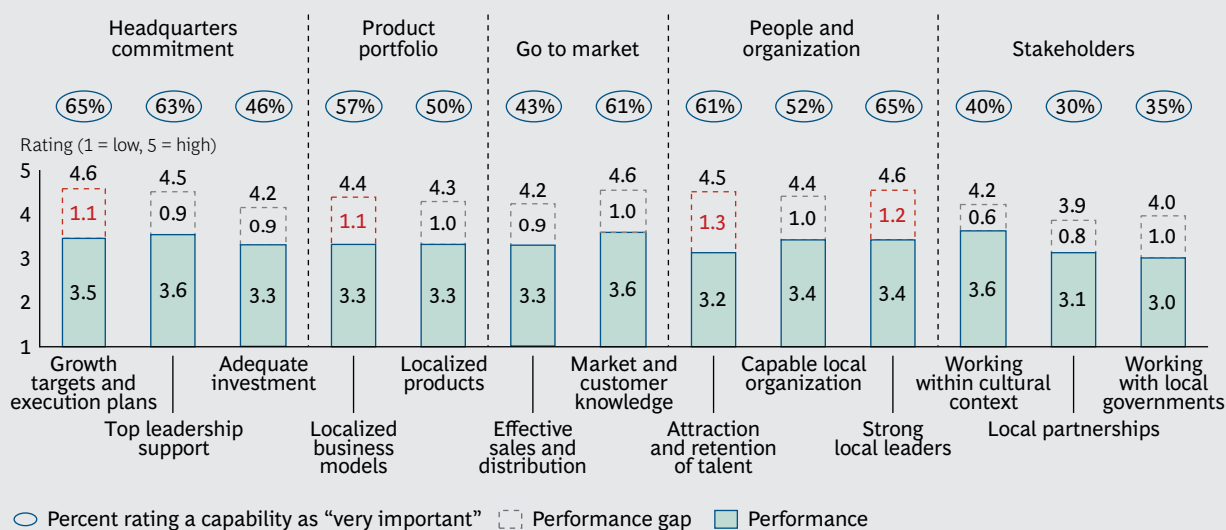
In addition to attracting and retaining talent, strong local leaders, localized business models, and growth targets and execution plans all have capability gaps exceeding 20 percent.

Of course, the magnitude of the gap varies by company. Not surprisingly, the performance gap of market laggards is two to three times larger in the most critical capabilities than the gaps of companies outperforming the market. This is common sense—solid performers would be expected to have more robust capabilities. It also suggests that the strong multinationals are focusing on the right things.

Ambitions and Leadership. Executives are looking for more than just money from the senior leadership team. In fact, adequate financial investment is relatively less important, according to survey respondents, than goals, plans, operational support, and strong senior-leadership commitment. As one pharmaceutical executive said, the most critical factors for success in emerging markets are “a proper strategy, management consistency, and sustained investments.”

Consider Tupperware Brands, the home-products and beauty-care direct-sales company, for example. More than 60 percent of Tupperware's \$2.6 billion annual revenues now come from emerging markets: Indonesia just replaced Germany as the company's number-one market. CEO Rick Goings continually champions Tupperware's emerging-market focus both inside and outside the company. He is on the road 70 percent of the time, much of it in emerging markets. According to

EXHIBIT 4 | Gaps Exist in Most Critical Areas Between Level of Importance and Performance



Sources: BCG Globalization Readiness Survey; BCG analysis.

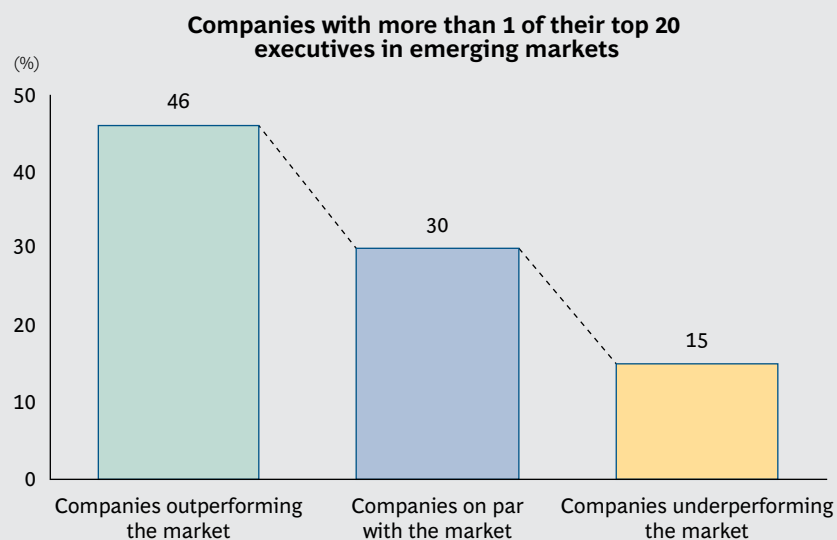
him, multinationals that want double-digit growth need to shift their mindset from viewing home markets, which are often mature, as core and everything else as “international.” “Populations in mature markets are small in comparison to emerging markets and not growing much. On the other hand, almost 90 percent of the world’s population and 1 billion new middle-class consumers are in emerging markets....These are consumers who, from the Internet and global communications, know and want what we have. Companies that want growth simply must be where the growth is,” he says.

Siemens is also actively shaping its position in emerging markets. The company’s supervisory board learns about a region from country management, and then individual members of the board spend two days in that region meeting with customers, government officials, and other stakeholders. These meetings help to inform Siemens’s investment decisions.

Companies can also demonstrate senior leadership support by locating corporate leaders in these markets. Schneider Electric recently moved several senior executives, including CEO Jean-Pascal Tricoire, to Hong Kong to be close to growth opportunities. Japanese multinational Brother also is committed to locating top leaders in emerging markets.

Few other companies have followed suit. Even among multinationals from mature markets that are growing faster than the market, fewer than half have more than 1 of their top 20 executives located in emerging markets. It’s even worse for companies that are growing more slowly than the market. (See Exhibit 5.)

EXHIBIT 5 | Companies with Top Leaders in Emerging Markets Are More Likely to Outperform in Those Markets



Sources: BCG Globalization Readiness Survey; BCG analysis.

Note: Only responses from executives of multinationals based in mature markets are included in the analysis.

Local Leaders and Talent. Leadership and talent management are especially crucial in emerging markets. By 2020 in Indonesia, for example, a 40 to 60 percent gap in the supply and demand for middle managers is expected to develop. (See *Tackling Indonesia's Talent Challenges: Growing Pains, Lasting Advantage*, BCG Focus, May 2013.)

“Finding the right people with the right bundle of attitude, aptitude, capabilities, sophistication, and cultural fit to drive double-digit growth over the next ten years” is the biggest challenge in emerging markets, a consumer-products executive said.

While many multinationals have a strong employer brand in these markets, local companies can increasingly compete effectively for top talent. In China, 32 of the 50 most preferred employers in 2012 are local companies. (See “Four Ways to Stop Worrying About Talent in China,” BCG article, May 2012.)

Strong local companies can match or exceed the compensation offered by multinationals, and they often offer employees equity packages. By contrast, multinationals are perceived as having a “glass ceiling” that limits career opportunities. Local employees use those companies as stepping stones to strengthen their resumes.

Some multinationals have actively created programs and plans to develop and nurture talent in these markets. Maersk explicitly strives to hire and train local talent in emerging markets and expose them to other countries throughout their careers. “Whatever your home market, you have great chances to move up the ladder or move into different countries,” says Nils Andersen, Maersk’s CEO. “We are increasing our recruiting activities for top talent in the developing world and trying to diversify the skills and cultural background in the group.”

One of the best ways to understand staffing needs is through strategic workforce planning, an exercise that models the future supply and demand for people and then identifies how to close the gaps.

The supply, of course, is determined by the projected availability of employees, taking into account likely attrition, promotions, and other movements. Demand is directly linked to the company’s strategy and growth plans. Companies should anticipate and simulate several different demand scenarios. When spotted early enough, workforce shortfalls and surpluses can be addressed through recruitment, retention, cross-training, transfers, and outsourcing.

The outcome of this analysis can fundamentally change leaders’ view of their staffing challenges, as it did with a large conglomerate operating in China. To meet its five-year growth plan, the company discovered it would have to recruit, train, and develop 2,000 middle managers—the equivalent of one-third of its entire local workforce.

Market Knowledge and Localized Business Models. Successful multinational companies in emerging markets have started to crack the code that allows them to understand what consumers want and what business models the companies need to adopt. As one respondent stated, the most important requirement for success is

Leadership and talent management are especially crucial in emerging markets.

“the ability to understand local customers’ needs and adopt local business and operating models.”

This is not simple work. It is not enough to strip down a mature-market product to create a basic, less expensive version for emerging markets. Companies need to understand local customer requirements and then, if necessary, modify products accordingly. Haier, for instance, developed a washing machine for consumers in India that operates at the low water pressures typically found in the nation’s urban apartments. Yum! Brands has famously customized its restaurant offering in China and now has about 6,000 stores. Schneider Electric empowers local leaders to do what it takes to win in local markets as long as they abide by the company’s overall values and culture.

Growth in emerging markets has temporarily masked many performance gaps.

Howard Schultz, the CEO of Starbucks, explains the trade-offs required of a global company offering local products and services: “The challenge that we have to understand and overcome is creating a balance between the Starbucks experience that customers all over the world expect and desire and a healthy dose of local relevancy that demonstrates respect for the local customer—whether it is local food, how the stores are designed, pricing, or the tailoring of recipes to local tastes.”

These moves are necessary because local competitors tend to be more focused than multinationals. “There are simply too many attractive market opportunities around the globe,” said a multinational executive. “Multinationals are therefore spread thinner, while local companies, for the most part, are very focused.”

Local companies enjoy other advantages, too. They may be owned by or receive preferential treatment from the state. They likely have strong relationships with important stakeholders, great knowledge of local regulations, and lower labor costs, if the multinational is manufacturing abroad.

Local companies are also likely to be less risk averse, with the ability to respond more swiftly than most multinational companies. “[Competitors are] fast, flexible, and better able to react to market opportunities and threats,” one executive said.

Closing the Performance Gap: A Checklist for Success in Emerging Markets

Economic growth in emerging markets has temporarily masked many of these performance gaps. A business growing at 12 percent looks successful—unless the market is growing at 15 percent. Some of this false success may become exposed as growth slows in some emerging markets and competition rises in all of them. “Growth,” one chief executive said, “tends to make a lot of management sins invisible. It covers them up.”

Winning companies have a clearly articulated strategy and a carefully calibrated combination of capabilities at the center and in the field, across markets, and within functions. All companies can strengthen their strategic focus and capabilities in these markets.

The following checklist can serve as a guide to help companies set the right course and take the right steps in emerging markets.

EMERGING-MARKET OPPORTUNITIES AND TARGETS

- Identify the most significant opportunities in emerging markets.
- Define priorities by market and customer segment.
- Define specific targets and required resource levels.

MARKET UNDERSTANDING

- Identify your strengths and weaknesses relative to both multinational and local competitors.
- Conduct qualitative and quantitative market research at both macro and micro levels.
- Analyze the leading products and services in your key markets and how they appeal to local customers.
- Learn how both formal and informal distribution and marketing channels operate in your key emerging markets.

BUSINESS MODEL AND PRODUCT PORTFOLIO

- Develop, test, and refine your business model in light of market realities.
- Identify any required changes to product and pricing to appeal to your key markets.

Identify and develop relationships with key stakeholders.

STAKEHOLDER MANAGEMENT

- Identify and develop relationships with key stakeholders, including government officials, NGO officials, community organizations, and strategic partners.
- Assess your willingness to undertake M&A to accelerate growth and the receptivity of key stakeholders to partnering.
- Analyze the local scene for potential M&A and joint-venture candidates.

ORGANIZATION AND PEOPLE

- Rigorously assess the strength of your local emerging-market organizations.
- Evaluate your workforce needs to reach your growth targets.
- Put in place training and development programs to ensure that you have strong local leaders and effective middle managers.
- Identify potential rising stars in emerging markets and expose them to the same types of accelerated career paths that their counterparts in mature markets follow.

LEADERSHIP AND HEADQUARTERS SUPPORT

- Ensure that emerging-market issues—especially leadership and talent, resource allocation, and business plans—are routinely on the agendas of the board and senior leadership team.
- Hold board meetings in emerging-market cities and engage with consumers, customers, NGOs, and governments.
- Locate key senior leaders in emerging markets and rotate rising stars through these markets.
- Create incentives for senior-executive team members so that they are collectively responsible for the success of emerging-market businesses.
- Ensure that your headquarters staff has the skills and responsibilities to actively assist emerging-market businesses with business model adaptation, forecasting, and best-practice sharing.

This checklist may alert companies to opportunities and gaps that need to be addressed urgently and comprehensively. BCG's emerging markets acceleration program (EMAP) is a field-tested diagnostic approach that helps clarify ambitions and priorities and close capability gaps.

By relying on proven methodologies and practices, companies can get themselves in shape in emerging markets. They can beat the market, not just match it. They can confidently take on local competitors. And they can play to win.

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