DEFENDING TURF:
MARKETING STRATEGIES FOR
EMERGING MARKET COMPANIES

BY

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Abstract

Emerging market companies (EMC), long accustomed to privileged positions in protected markets, are facing intense competition from international companies in their increasingly liberalized economies Many are unprepared for the new competitive onslaught, and there is little guidance available to EMC in the management literature The conventional response of EMCs has been to sell out to foreign competitors or to exit the industry. However, we suggest that lessons can be drawn from EMCs that have successfully competed with MNC competitors This article examines a wide range of successful defence strategies pursued by companies in competition with multinational companies in many emerging markets around the world.

In the marketplace of the global village, multinational-owned megabrands have rapidly become ubiquitous. The crumbling of the iron curtain, the institution of economic reforms in China, and the liberalization of economies from India to Brazil has opened up large markets to multinational corporations (MNCs). As trade barriers have disintegrated, MNCs have rushed in, seeking sales growth and respite from their intensely competitive and saturated home markets. As a result, erstwhile protected markets have experienced an abrupt deluge of international brands For the choice starved consumers in these emerging markets, this was a welcome change from meager choice and low quality products to which they had grown accustomed. However, for local brands in these newly liberalized markets, the influx of foreign players spells a different reality. For many emerging market companies (EMCs), the experience is a first taste of international competition. To them, the large-scale entry of international firms is a major threat. At best, it results in erosion of local firms' market shares, and at worst it could spell their demise. Even if local firms do survive, the transition may allow powerful and well-endowed multinational to wrest control of the rules of the market.

At first sight, the outlook for EMCs is bleak. Governments of liberalized economies are unlikely to be able to turn back the clock. Therefore, lobbying for the re-instatement of protectionism is scarcely an option. Further, for EMCs, the option of selling out to MNCs or diluting control with partial foreign ownership is often only considered as a painful last resort. EMCs tend to be family or government controlled, and do not easily take to the idea of foreign ownership. Consequently, EMCs need to find a means of survival in the face of global competition while ensuring that they retain their autonomy. This often means adapting to the new market environment and competing with the new entrants. However, EMCs are rarely equipped to effectively deal with the competitive onslaught from multinationals. Long accustomed to privileged positions in protected markets, most EMCs lack the products, the technology, the financial resources, and most importantly, the skills necessary to compete There is little advice available to such firms in the traditional management literature

Little has been written about survival and defense strategies available to emerging market firms that have been exposed to harsh competition rather abruptly. Much of the strategy and marketing literature related to emerging market firms adopts the perspective of developed-market companies doing business in emerging markets. An extensive literature exists, for example, on the market entry strategies of MNCs Yet the other side of the story, the effects of multinational entry on local competitors remains a neglected topic Given the urgency and magnitude of the competitive threat to local firms, we believe it is necessary to examine their strategic options and to draw lessons from the approaches adopted by successful local defenders The purpose of this article is to examine the marketing strategies, and specifically, brand-level strategies available to EMCs as they attempt to survive the entry of international competitors

Assessing Survival Likelihood and Options

As it becomes evident that formidable multinational players armed with a powerful arsenal of global brands, internationally honed marketing skills, huge financial resources, and state-of-the-art production and product technology, will enter the market, EMCs understandably question their ability to survive.

Multinational competitors not only have access to superior technology and knowledge garnered from operating in a number, and a variety of, markets worldwide, they also have the advantage of being able to treat any one market as a long term venture, justifying short-term losses as investments in market-building, while satisfying shareholders with profitable positions in other markets. As described by the chief of Swiss transnational Nestle in India, "We are not looking for massive returns, we are not looking for fast money The big money is not going to come from India As our CEO in Switzerland, Helmut Maucher, has said, we are not looking at India in the context of our children, but of our children's children "

EMCs are usually not so fortuitously placed. They generally derive all of their revenues and profits from their home market and need to demonstrate returns for the short-term, while combating their competitors

Nevertheless, EMCs do have assets and opportunities which, if appropriately used, can provide a means of stemming the MNC advance. Among these assets are the "localness" of their brands, superior customer knowledge, low costs of production, the ability to rapid decisions and make pre-emptive moves, selective partnering with international players, and in some cases, the potential to counter-attack. EMCs such as China's Shanghai Jahwa, the Philippine's Jollibee and Russia's Vist Computers have managed to defend their home turf in the face of competitive inroads made by major multinationals such as Unilever, McDonald's and Compaq. In other cases, EMCs such as India's Arvind Mills and Titan Watches, and Mexico's Cemex and Bimbo have built on their success at home and launched international expansion strategies of their own In the following sections we examine these defensive strategies, and illustrate their use by EMCs.

Exploit Local-ness

One of the clearest advantages which EMC brands have over multinational brands is that they are local. Being local involves having an established local presence, a locally appealing proposition and positioning, a local level of service and delivery, and superior local knowledge of consumer tastes and regional differences. Leveraging this local superiority is key to the survival of local brands. Unfortunately, many local firms tend to assume the opposite -- that emulating successful international brands is the best means of survival This can be a serious mistake, as it leaves EMCs playing by the international firms' rules, without the resources to do so

Getting Close to the Customer

Local service and delivery are key to the success of VIST, a Russian personal computer manufacturer VIST has grown from a small operation to being the largest brand of computers sold in Russia, despite stiff competition from international players such as

Compaq and HP. Most of the international majors have concentrated on getting a share of the large but fickle government market in Moscow. In contrast, VIST's strategy is to establish a local presence and serve small office and home-office customers through an extensive dealer network covering over 60 small cities and towns. The firm offers warranty terms and personal sales that are appreciated by consumers buying their first computer. In 1997, VIST attained a 20% share of the Russian PC market VIST attributes its success to a superior understanding of the Russian consumer, and relies on its proximity to the market to provide it with knowledge about changing trends and expectations. By meeting these ahead of the competition, VIST has consolidated its position as the market leader in Russia

Another way of looking at VIST's success is that it has focused on downstream activities in which its local nature is an advantage The personal computer industry is characteristically global, in that the fixed costs of product development and brand building need to be amortized over large sales, leading international players to seek global markets. However, by focusing on local service and delivery, VIST is concentrating on making the downstream aspects of the industry more important in consumers' choice. These downstream aspects are inherently local.

Local Products for Local Consumers

Jollibee, a family-owned fast food company in the Philippines, has successfully staved off competition from one of the world's most global companies – McDonald's. In its home market, the company has captured 75 percent of the burger market and 56 percent of the fast food business by developing a home-grown menu, customized for local tastes, while skillfully matching the service and delivery standards of its international competitors Jollibee's menus which include burgers seasoned with garlic and soy sauce alongside spaghetti, noodle and rice meals made with fish and shrimp, have enabled it to defend its home market in the Philippines over its closest rival, McDonalds which has a 19 percent share

Another company that successfully uses its superior knowledge of local consumer behavior in its competitive battle with multinationals is Shanghai Jahwa, China's oldest personal hygiene and cosmetics company Its strategy is to develop low cost, mass-marketed brands whose positioning revolves around consumers' belief about traditional Chinese ingredients An example is the Liushen (meaning "six spirits") brand of *eau de toilette* Chinese consumers believe that human organs such as heart and liver are all internal "spirits" that determine the health of the body Liushen is the name of a traditional prescription made of pearl powder, musk and several other ingredients usually packaged in the form of a tiny tablet, and used as a remedy for a variety of summer ailments such as prickly heat Building on this knowledge of local consumer preferences, Shanghai Jahwa launched the Liushen *eau de toilette* positioned for summer use The brand rapidly gained 60 per cent share of the market, and has since been extended to a mainstream shower cream targeted at the traditional Liushen user. The shower cream is doing well in a competitive market dominated by Lux (Unilever), Safeguard (P&G) and Johnson Baby (Johnson & Johnson) brands which appeal to young fashion conscious urban consumers Today, Jahwa is the biggest of the country's 2,000 domestic skin-care and cosmetic companies, and has about 7 per cent of the Chinese market. Jahwa's chairman, Mr. Ge Wenyao believes that Jahwa is one of the few companies well poised to realize the true potential of the Chinese market by developing products, which appeal to its billion-plus consumers. In contrast, foreign manufacturers tend to seek consumers that best match their existing product portfolios As a result, they lock themselves to restricted, if lucrative, segments of the market For example, Revlon estimates its entire market in China to consist of about 39 million consumers – less than 3% of the population

Use Local Knowledge to Fragment the Market

A key element of the local-ness strategy is to segment the local market so as to serve local needs better While international players tend to see an emerging market nation as a single market, or even simply as an extension of a global region (e g Vietnam is considered by many multinationals to be just another market in Asia, with characteristics similar to other Asian markets), local firms are often able to understand and profit from the subtleties of regional and other differences within the country Local players who understand the strategic importance of these differences can fragment the market and develop offerings tailored to smaller segments within the market. Shanghai Jahwa, for example, has introduced a variety of product lines to cater to different segments, including its Chinf de Chinf line of cosmetics which competes with multinationals products at the top end of the market, and its Maxam line of products which has a primarily rural appeal

Regional differentiation also allows local firms to out-maneuver international competitors Consider the fabric-whitener market in India For decades, the Anglo-French giant, Reckitt and Colman's Robin brand had been the market leader. It still remains the only national brand. Today however, Robin's dominance is confined only to the powder segment of the market In the rapidly growing market for liquid fabric whiteners, Ujala, a local Indian brand is the market leader, despite only a regional presence. In urban markets, it outsells Robin's liquid fabric whitener by a factor of three to one. Ujala exploited regional differences in consumer preference. While the consumers in north and east India prefer their fabric whitener in powder form, urban consumers and those in the south and west tend to prefer it in liquid form. Through its strong presence in south India, Ujala has emerged as the overall market leader. Robin is not the market leader in the second largest zone (west) either Another local Indian brand, Captain, is the market leader there. These local brands understand local consumer and trade preferences and develop products to fit them

While the expenses and risks of fragmenting a market may be high, there is a definite strategic rationale for considering the investment Naturally, fragmenting the market involves understanding differences in consumer tastes and the preferences But in the long term, a fragmented market is also one which is more difficult and less attractive for competitors to enter – any new entrant has to provide the entire line of products, or conversely, to be satisfied with only a fragment of the overall market

Multinationals will in time be driven by their growth imperatives to develop products for the large untapped mass markets in emerging economies As a result, over time the EMC advantage of superior local knowledge may wane Some well-entrenched multinationals have already demonstrated a keen ability to develop products and offerings adapted to local markets Unilever, for example, has developed products such as the "Fair & Lovely" beauty cream specifically for the Indian market (and subsequently launched it in other countries in Asia) Colgate Palmolive's toothpastes are formulated for the local market, sometimes in order to meet cost criteria to make the product acceptable to the mass market In China, Procter and Gamble's Safeguard brand was effectively able to leverage a government campaign to encourage hygiene practices to reinforce its antibacterial positioning It also obtained an endorsement from the China Medical Association, which further boosted its local credibility

The initial focus of multinationals on select segments of the market does not provide EMCs with a permanent defense Instead, it is best viewed as an opportunity for EMCs to consolidate their positions in the local market Consolidation strategies include catering to the mass market, and fragmenting this market to deliver distinct offerings to each segment.

Appropriate Critical Resources

In anticipation of the entry of multinationals, EMCs can appropriate key market resources such as brand positions and distribution channels By locking up these key resources. the EMC ensures that penetration of the market by new entrants is more difficult, more time consuming, and more expensive

Brand Positions

In the South African and Jamaican markets, local fast food operators registered McDonald's name long before the burger giant entered the market In South Africa, the firm was forced to litigate to obtain the right to use the name This is a particularly stark, if unsophisticated example of the appropriation of key resources More sophisticated

EMC competitors tend to pre-emptively appropriate key brand positions before multinationals enter the market. For example, Shanghai Jahwa launched a two-in-one shampoo and conditioner in China just as Procter & Gamble was preparing to introduce its hugely successful Rejoice shampoo, whose key proposition was the convenience of a two-in one shampoo Multinationals that emphasize global brands and positions are particularly vulnerable to this form of pre-emption. Their brands are developed on the premise of a single global positioning, which is an open-book to local competitors.

Distribution Channels

Another key market resource that can be pre-emptively appropriated is distribution channels. Local brands often have the advantage of an extensive and established distribution presence in channels, which may be the best or least expensive means of getting the product to consumers Asian Paints, an Indian company, sells paint through over 14,000 retail outlets, reaching some of the remotest rural areas in India. In contrast, its nearest multinational rival has fewer than half that number of outlets. The existing distribution network and the relationships Asian Paints has nurtured with its channels are a formidable barrier to entry for new arrivals. Similarly, Titan watches of India, faced with the threat of market liberalization and entry by giants such as Seiko and Citizen, quickly established 101 exclusive (owned and franchised) Titan stores in key cities in India, along with a strong presence in 85 multibrand showrooms, and a total distribution through 5,000 outlets in 1,250 towns across India. Says Mr. Vasant Nangia, Managing Director of Titan watches, "This represents a stranglehold on the domestic market." As Seiko and Citizen contemplate entry into India, they must contend with replicating these enormous distribution investments Titan's local presence, its reach, and its extensive agreements with the channels place it in a strong defensive position.

Leverage Cost Advantage

Local manufacturers in Brazil, Russia, Indonesia, China, India and other liberalizing markets sometimes take comfort in their cost advantage over MNCs. Their products are likely to be designed and produced locally, with local raw materials, and inexpensive labor. This cost advantage is typically used by EMCs to adopt a low price strategy in the market. Competing on price may work in the short term, if it is not matched by the foreign competitors However, the price advantage is illusory for two reasons. First local manufacturers often cannot match the quality of international brands. When they do, the cost advantage generally evaporates. Secondly, international brands often adopt a long-term market entry strategy, which allows them to take advantage of both the inexpensive local inputs and their superior international technology Unilever, for example, produces locally in most countries with local raw material and labor. Yet its marketing is clearly world class in every market. The strategy of leveraging lower costs of production can easily be replicated by MNCs, much to the discomfort of local players Hindustan Lever, Unilever's Indian subsidiary, for example, introduced a price-brand, Wheel detergent powder, which has reclaimed market share from the remarkably successful local market leader Nirma. Local firms need to demonstrate that they can produce products of a quality similar to that of products from MNCs, and still retain their price advantage.

When they do actually have a cost advantage at equivalent quality levels, EMCs need to carefully consider their options in terms of deploying it. A cost advantage should not automatically translate into a lower price. A low price positioning is vulnerable not just to price wars with multinationals, but also to predatory local competitors. Instead, EMCs might consider not cutting price and spending the better margins on measures such as generating brand loyalty, investments in brand equity and positioning, buying distribution space, new product development, packaging innovation, etc. Asian Paints, for example, has consistently developed new paint products and packaging, designed specifically for the Indian market. Many of its products are targeted at the low-end of the market. Yet, in each segment, Asian Paints is able to command a premium over its competitors Returns generated form the premium pricing are ploughed back into market-building measures. These measures strengthen the firm's position in the marketplace and create the potential for additional future revenue. Asian Paints remains the dominant brand in the consumer paints market in India, despite huge efforts by multinationals to displace it By directly translating a cost advantage into price, EMCs may be squandering an opportunity to create market positions not based on price. They may be locking themselves into a uni-dimensional price-based positioning

Compete on Pace: Leverage Organisational Flexibility

Relative to their MNC competitors, EMCs tend to be administratively less complex organisations The distance between managers and owners, and that between key decision makers and key stakeholders is not as large as for multinationals As a result, procedures and control mechanisms tend not be as rigid For example, local EMCs generally do not have to grapple with typical MNC tensions – such as that between forces in the organisation that advocate global integration (with an eye on scale economies) and those that argue for greater local responsiveness (with a view to be customer friendly), or the tension between the product organisation and the regional/country organisation

One consequence of this is that EMCs have the option of competing on pace Rapid product launches, entry into new segments, use of localized and customized promotions to alter the competitive nature of the market, are options available to local players. MNCs may be strapped by cumbersome control procedures which make it necessary for decisions such as product launches, and even promotional campaigns, to be authorized at higher levels in the organization which are often located outside the local market.

Another factor, which magnifies the complexity of local operations for the MNC, but not for the local firm, is the nature of entry for MNCs If the MNC's entry into the emerging market is through a joint venture or a strategic alliance[1], they are additionally burdened with managing the well-documented tensions that arise from such partnering Critically for an MNC, the challenge of managing an operation in an emerging market with its own dynamic, and often more chaotic and less well-ordered rules of the game is added to this potent mix of managing a multi-business multinational with multiple ownership structures MNC managements are often unprepared for these challenges In such cases. their superior resource positions come to naught, and the firms under-perform The limits of the flexibility of their organisational arrangements – structure, systems, and cultures – are tested in an effort to accommodate rapid responses to EMC initiatives. EMCs are well positioned to exploit this lack of MNC flexibility. Indeed the outstanding success achieved by Bajaj Auto in the Indian market place is a case in point.

In the mid-1980s, at the time of the entry of the global majors – Honda, Yamaha & Suzuki from Japan, and Piaggio from Italy - into the Indian market for two-wheel motorized vehicles (scooters, motorcycles, and mopeds), the local producer, Bajaj Auto was considered heavily disadvantaged. It had dated technology, and its scooters were poorly designed. Bajaj had a huge share of the scooter market, but no presence in the fast growing motorcycle and moped segments. While it was not cash strapped, its financial resources were no match to those of the international players Most analysts had expected Bajaj to cede the market to the powerful MNCs.

More than a decade later, Bajaj Auto remains the market leader. It has a 37% share of the entire two wheeler market. Besides maintaining its leadership of the scooter segment, Bajaj has also carved out a 28% share of the motorcycle market, and a healthy 9% share of the moped segment. A significant factor contributing to the company's success was its ability to take quick decisions, unencumbered by the complexities of a multi-business multinational with multiple ownership structures. Rahul Bajaj, the chairman, could choose to enter new segments, seek new and multiple technology partners, expand the distribution network, make investments in information technology, increase R&D and advertising expenditures, and cope with initial product failures, without having to justify these decisions to a higher level hierarchy located elsewhere in the world. In sharp contrast, the country managers of Honda, Suzuki, Yamaha and Piaggio would all have had to deal with significantly less responsive organisational arrangements.

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[1] Either because of regulatory requirements or due to the desire of the MNC management to diversify risk

Level Playing Field Through Selective Partnering

MNC competitors often have the advantage of superior technology and strong brand equity. EMCs, however, can neutralize both of these advantages, through selective partnering Shanghai Jahwa, for example, competes head-on with some powerful MNCs through its top of the line Chinf de Chinf cosmetics products. Much of the technology in this line of products is bought from a French manufacturer. Similarly, Bajaj has been effective at competing in the fast growing motorcycle business because it brought in technology from Kawasaki through a technical collaboration agreement. Computer manufacturers Vist in Russia, Legend in China, and HCL in India are all competing effectively with multinational giants such as Compaq and HP by signing on to the "Intel Inside" campaign or its local variants. The use of the Intel name provides the consumer with the assurance they need and places the local brands in the same consideration set as well-known multinational brands. A key feature of selective partnerships is that they allow the local firm to match their international rivals while maintaining their autonomy. Unlike joint ventures and sell-outs, selective partnership deals are driven by the EMC as it seeks to upgrade its capabilities to effectively compete with its MNC rivals.

Counter-Attack

By building on a sound defensive position at home, some EMCs have counter-attacked their MNC competitors in international markets. International expansion by an EMC is an expensive and risky proposition. Nevertheless, some EMCs have realized that the benefits of playing in international markets sometimes outweigh the costs. Bimbo, a large confectioner in Mexico consolidated its hold on its vast domestic distribution network when it became evident that international competitors, including Pepsi were about to enter the market. Its successful defense of the home market has emboldened it to launch an international expansion strategy that has led the company into Texas, where it has acquired the largest local bakery. Cemex, another Mexican firm, launched an international expansion initiative based on acquisitions, which has made it the third largest cement manufacturer in the world. Arvind Mills, an Indian denim manufacturer exports over half of its output making it the third largest, and fastest growing, denim supplier in the world Jollibee, the Filipino fast food company, now has over 25 stores outside its home market Titan watches, an Indian watchmaker, threatened by the entry of international brands, has launched a deliberate strategy to become a "world brand "

These expansion strategies have some interesting elements in common A first step to international expansion for many EMC firms appears to be to enter analogous markets in which key success factors such as consumer preferences, or distribution requirements are similar to those in their home markets Thus, Titan's first international foray was into the Persian Gulf states where a large expatriate Indian community was already familiar with the brand and was easily targeted using the same media as the domestic Indian market For the same reasons, Jollibee's first international stores were located in the Persian Gulf and Hong Kong, where it found a large expatriate community which readily identified with its brand and appreciated its products Cemex has chosen to expand first into markets in which cement is, as in Mexico, a branded product rather than a commodity Analogous market expansion allows EMCs a stepping stone to international expansion

Expansion into the major markets of the developed countries is a much larger step, requiring significant commitment of resources Titan watches of India has in recent years launched a major brand building campaign in Europe, positioning itself as a global brand While so far Europe accounts for less than 10% of Titan's sales, the brand now enjoys a reputation in the Indian market as the only domestic watch brand capable of playing internationally Importantly its participation in the international markets would enable Titan to deny the MNCs entering the Indian market the option of exclusively leveraging their "internationalness" as a positioning platform (often a powerful platform for competing in emerging markets as this claim is inimitable by EMCs) Titan further claims to have learned about doing business and meeting stringent customer expectations by operating in Europe Through a rotation of managers, this knowledge is fed back home where the firm is bracing to meet international competitors Arvind Mills of India believes it has already benefited domestically from its international expansion It has achieved standards of reliability in delivery and product quality, which its local competitors cannot match

The expense and risk of international expansion have kept most EMC firms at home. There are very few EMC international brands However, they are expanding rapidly. Many of the firms we have discussed in this chapter are firms to watch in the coming years While they may not achieve the ubiquity of MNC brands in the short term, they are certain to give their MNC competitors a run for their money in local markets. And with the internet rapidly eroding the value of complementary assets held by the MNCs (their distribution equity in particular) many of EMCs have lower costs of entry into international markets.

Conclusions

EMCs in liberalized markets face a very tough new competitive realty However, the challenges of this new competitive landscape are not insurmountable. As we have seen, some firms are rapidly adapting to this new market environment and taking advantage of opportunities, which derive from their specific competitive advantages. These firms are well poised to defend their turf, and even launch counter-attacks into international markets.