The Challenges of Emerging Market CMOs

5 Pitfalls to avoid

Written by André van Regenmortel – Asturias Consulting Ltd

Introduction

Country Chief Marketing Officer (CMO; or Marketing Director or VP Marketing) roles are demanding as it is. Diminishing consumer loyalty, intensifying competition from foreign and local players, proliferation of channels and rising media costs, and shrinking marketing budgets make maintaining once market share already quite a feat, let alone growing it. But emerging market CMO roles come with a myriad of additional difficulties. This article briefly examines some of the key ones from the perspective of the western / expatriate CMO:

1. The Diversity or One Size Fits All Pitfall
2. The Foreign is Better Pitfall
3. The Premium is Better Pitfall
4. The Underinvestment Pitfall
5. The Go Local Pitfall

1. The Diversity or One Size Fits All Pitfall

Most (new) emerging market CMOs will realize that the developing country that they have been assigned to is radically different from their home market, in consumer tastes, competition and trade landscape. Quickly familiarizing oneself with the most important differences is key to any new CMO's induction. But it usually stops there. Bandwidth is often too limited to realize that regional and sometimes city differences *inside* one emerging market are much more pronounced than those in developed countries. At best, this is acknowledged, but subsequently ignored or pushed forward for later consideration.

Yet, conquering an emerging market with one marketing mix is ill-fated. Not only are many developing countries too large to be tackled all at once, but even if funds would not be an issue, diversity in consumer tastes and preferences are so pronounced that fundamentally different propositions are required. This is not only true for country-continents like India and China, which each encompass hundred plus ethnic groups. Statements like "the diversity of Europe in the size of the USA" don't do justice to their internal variety. But even in mid-size developing countries such as Vietnam, where 94% of the population is ethnic Vietnamese, are consumer tastes, competitive landscape and retail infrastructure radically different between e.g. the political capital Hanoi in the north, and the economic powerhouse Ho Chi Minh City in the south. In most categories, the leading brands in one city are absent or marginal in the other. Distributors, key in penetrating the dominant traditional trade (80% weighted distribution depending upon the category), are at best regional but mostly local, as opposed to national. Whereas these differences may diminish over time, why would you assume that your brand could span the divide overnight? Much smarter would be to assess in what region(s) your brand has most potential, and concentrate your efforts and investments there.

2. The Foreign is Better Pitfall

The statement that in most emerging markets and in most categories, foreign brands are preferred over national (local) ones, is too simplistic and often untrue. A more refined concept is that of an *emerging market foreign brand lifecycle*. Many emerging markets go through three phases. In phase I, foreign brands are unknown and mistrusted, and hence local ones are preferred. With increasing economic development and international exposure in phase II, the superiority in specifications and performance of many foreign brands and products is acknowledged. But many CMOs expect this phase to last forever. Well, it doesn't. Increasingly fast, phase II is followed by phase III, in which local brands improve their act (sometimes through a "me better" strategy), and national pride resurges fueled by the economic success of the nation. The conviction that home brands are equally good and offer better value for money is difficult to compete against. Continuing to ask a price premium based on foreign credentials alone (see also the premium is better pitfall) will risk much of your hard fought market share gain. Instead you need to do the same what your company should be doing in your home market, namely knowing your core consumer segments – and serving their needs – better.

Even if your business would enter a developing country at a stage during which foreign brands in your category are welcomed by local consumers, you need to realize that building a preference for your specific brands will require substantial efforts and investments, best concentrated in one region first (see the diversity or one size fits all pitfall). The challenge is even higher if your brand occupies a new category which is little known. A good example is yoghurt in China, by western standards still an embryonic category. Positioning yourself as a *special yoghurt* – like Danone's Activia does in terms of digestion benefits – is an uphill battle, as the benchmark category is little understood and often equated with digestion benefits as a whole. It's good to be unique, but you need to be able to explain your uniqueness in a positive way to the consumer.

3. The Premium is Better Pitfall

The previous section makes it clear that the "foreign = better and therefore can be more expensive" theory can at best be true temporarily. Knowing where a specific country is in the emerging market foreign brand lifecycle is important, but one cannot stop there. The key question is if your brand and product really delivers superior benefits, which are appreciated by your core consumer, and can be explained to them. Sounds like marketing in mature markets? Well, that's because it is.

Yet, more pricing / positioning mistakes can be made. Many CMOs equate poor consumers with cheap tastes. Especially in early phase II (see the foreign is better pitfall) this is not necessarily true. In many immature countries and categories, price itself is used as a quality indicator: more expensive = better. A more extreme example is *ostentatious consumption* – showing off premium brands to others while one can ill-afford them. This can be a very profitable opportunity for consumer goods companies, although not in all categories and unlikely for long. Examples are motorbikes and infant formula in Vietnam. For many years, one often found the most premium baby milk brands in poor areas in the nation's capital Hanoi. This was partly due to not wanting to be seen as "not being able to afford the best" by the neighbors and cousins. The disproportionate share of these brands and categories in limited household budgets requires painful sacrifices elsewhere.

Written by André van Regenmortel, iCEO #61547

Contact us! Phone: +44 207 193 0187 Email: ceo@ceo-europe.com

Websites: Management on Demand - Investors on Demand - Consultants on Demand – E-consulting on Demand

CEO Europe Ltd - 9 Queen's Yard - White Post Lane, London 9E 5EN, ENGLAND

But be aware, ostentatious consumption is often limited to specific categories and to certain cities and regions. For example, it is much less of a phenomenon in the worldlier Ho Chi Minh City. It is also risky, as it evaporates once a country develops further, and it may even create a backlash then. To use the same example – Vinamilk – the leading domestic infant formula player in Vietnam, has consistently communicated and finally successfully convinced authorities and public opinion that its much cheaper local infant formula was as good as foreign brands. When that turning point was reached, it led to a rapid decline in market shares of the international brands. Forever gone are the days that (foreign) infant formula in Vietnam costs much more than in neighboring countries.

Again, foreign brands shouldn't demand price premiums just based on foreign credentials and spurious benefits alone. The consumer needs to be able to trust that a higher price means higher quality. An opposite example in the same category occurs in China. Due to many years of grave and recurring health and adulteration scandals, most Chinese consumers do no longer trust any local infant formula milk. This leads to Chinese traders buying foreign milk powder off the shelves in countries as far as Australia, New Zealand and The Netherlands and selling these imported brands at huge prices and profits in China. The irony is that the product composition of the perceived local but foreign-owned Dumex brand is identical to the Dutch Nutrilon brand (part of the same Danone group), with the base milk powder imported from Australia and New Zealand. Yet Dumex has to convince Chinese mothers every day about its "foreignness", as the perception damage to the local milk powder industry runs so deep.

A final version of the premium is better pitfall is the general risk of carrying only one premium range. Entering an emerging market with a premium-priced offer only may seem the logical and easier solution, as one benefits from higher gross margins and commonalities with the home market. But this is dangerous. Firstly, it is very difficult to gain sufficient scale with a premium range only, which means that high fixed costs weigh heavily on a limited turnover, and hence make turning a net profit almost impossible in the initial years. But secondly, emerging markets experience heavier growth shocks than developed countries. An even temporary downward economic adjustment from e.g. 8% to 5% GDP growth (like Vietnam) can lead to big swings in channel and brand preference driven by income concerns. This favors mainstream and price-entry brands at the expense of premium brands. Many foreign businesses have had to (sometimes unsuccessfully) fight for survival when their brand got caught up in this. More prudent – albeit more costly – is to build a balanced brand portfolio with a premium and mainstream line (the latter potentially through acquisition). Going for a price-entry brand is often ill-advised for western players, as the required cost base is out of reach due to many factors (e.g. minimum quality standards, local scale, overheads).

4. The Underinvestment Pitfall

It's hard to over-invest when entering or growing in an emerging market, but it is easy to spend poorly. The most common mistake is to scatter a sizeable budget over too many regions, cities and channels, not creating sufficient scale and impact anywhere. After a few initial gains, this spend strategy will hit a brick wall, and your business won't have the budget required to break through it. Don't overstretch: it's about focused investments to reach sufficient local market share and hence cash-flow to help fund further growth in the initial region, or regional expansion.

A less obvious trap is to give up on consumer pull too quickly, and to solely rely on trader push. At a first glance there are numerous arguments for this strategy. In many emerging markets,

producing a TVC is not cheaper than in developed countries, and the media landscape as cluttered and expensive. Brand loyalty is lower, with more switching between brands within a certain consideration set. And more people make or change their brand decision at point of sale, influenced by merchandising, promotions and/or the sales person (especially in traditional trade which maintains its dominance in many developing countries). So why not? For several reasons. First, any new brand needs awareness before consideration. Unknown brands are unlikely to feature in a consumer's consideration set, and even the best sales person will have a hard time convincing her to try. The most effective way to reach a certain awareness and therefore consideration threshold is still mass (but not necessarily TV) advertising. Secondly, other than point of sale, a key purchasing factor in many developing countries is recommendations from family and friends. Although recommendation based on use is obviously the strongest, many people do not hesitate to recommend brands that they know and like from advertising only. Too low advertising budgets will compromise this factor. Finally, relying on trade push only is both costly and time-consuming. Retailers want high margins and money to push your brand over competitors at point of sale. This is even truer for mom & pop shops, whose owners would want strong financial incentives. Make sure that in case you do provide these, that they are based on sell-out to consumers, rather than just sell-in. Many retailers are all too happy to stock your product during promotions, but you'll be unable to sell anything to them for long periods afterward, as nothing is done to stimulate sell-through.

What your business needs is a balanced strategy in which consumer pull and trade push reinforce each other. Your business will only be able to afford this in a limited number of regions at a time. Don't overstretch.

5. The Go Local Pitfall

The final pitfall is perhaps the most obviously recognizable, but less often properly dealt with. Almost all CMOs acknowledge that (lack of) data and people quality (at agencies and in their own teams) are among their biggest daily headaches. Market data – e.g. trade scans / dealer panels – is either not collected or with questionable quality, partly due to people issues at the agencies themselves (yes, Nielsen is confronted with the same challenges). Advertising test benchmarks often hurt from an insufficient number of comparable ads to be meaningful. But frustratingly accepting all of this as a given which one has to endure is being too lazy. Emerging market CMOs need to be relentless in not accepting substandard work from market research and creative agencies. It is part of their role to challenge them and help them accelerate reaching global standards. This does not mean to bully them, but using the fortitude to have been exposed to state-of-the-art practices and work to provide guidance. It often also means that one needs to be willing to share more of one's own data, so market data agencies can triangulate their data and improve, especially if other industry players are willing to do the same (to Nielsen, not among themselves out of obvious anti-trust reasons).

A last word about how CMOs manage their emerging market teams. They roughly fall into two categories. First there are CMOs who will never conquer their frustration with the perceived inadequate qualities of their staff (as well as the non-level playing field). After an unsuccessful and costly recruitment drive (one will be surprised how much more certain middle managers in some developing countries make vs. their mature market counterparts), they resort to dominating and micro-managing their teams, mistakenly calling this being "hands-on". But expatriate emerging market CMOs lack the local market knowledge and cultural sensitivity to make the right decisions, and bullying one's staff will certainly shut them up and prevent them from contributing.

The second category is less obvious. At a first glance, these CMO's do everything right. Realizing and accepting their staff's and their own limitations, they give their team autonomy and respect, and hence allow them to contribute maximally. But many step so far back that they stop to add value. They merely "manage from 10,000 feet", leaving the rest (everything) to their inexperienced teams. This again is being too lazy. Expatriate CMOs need to constantly challenge and coach their teams. They need to earn their high paycheck and benefits. If not the company would be better of hiring a much more affordable local CMO. The business needs it, and their teams expect to be challenges and coached. If not, the CMO will lose respect and hence his effectiveness.

Conclusion

This brief article provides a glance of the formidable challenges of emerging market CMOs from an expatriate angle. Handling these well on a daily basis makes foreign CMOs earn their generous paychecks, as well as the respect of their teams and bosses. They need to continuously ask themselves if they are still adding optimal value, and hence deserve to be in their position. If not, their boss may wonder if he has the right CMO.

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The author André van Regenmortel has a successful 20 year track record in Strategy Consulting and Industry Marketing in Consumer Products, Business Services and Retail. He draws from extensive experience at among others Philips Electronics, McKinsey & Company, Danone, and METRO Group. For the latter two companies, he occupied Board positions in Vietnam and China, being P&L responsible for businesses of up to $2 billion.

André founded Asturias Consulting Ltd in 2012. Asturias Consulting Ltd is a global strategy and marketing consultancy which helps manufacturing, services and retail companies to grow sales and profit through smarter serving consumer and retailer needs, by jointly developing factual and implementable strategies and marketing plans.

For more information, please visit ***www.asturiasconsulting.com****.*

Contact us! Phone: +44 207 193 0187 Email: ceo@ceo-europe.com
Websites: Management on Demand - Investors on Demand - Consultants on Demand – E-consulting on Demand
CEO Europe Ltd - 9 Queen's Yard - White Post Lane, London 9E 5EN, ENGLAND