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Results

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"Winners understand the importance of not pulling the plug on advertising before a product has a chance to prove itself."

Jean-Charles van den Branden
Partner, Bain & Company

Recently, we revisited research our firm conducted six years ago: 90 of the 500 brands we studied then consistently outperformed their categories from 1997 to 2001. The study found that a differential commitment to innovation and advertising significantly increased the odds. But when we looked again early this year, only 13 of the 90 brand winners from 2001 continued to outpace their categories through 2007.

Many once leading brands fell behind because it's difficult to sustain commitment to innovation and advertising. To find out why proactive behaviour can be so hard to maintain, we analysed the experiences of the brands that were on top originally and were still on top when we revisited our work. Most consumer products companies have careful procedures for judging innovations, but many companies simply fail to follow them. We identified two major missteps that endanger even successful brands.

First, they don't set the right target for innovation. Many companies underestimate the value they need to create through new products to maintain strong growth. Second, if they do set a target, striving for it can result in the wrong kind of innovation: the pipeline gets jammed with too many smaller efforts, while the big opportunities get lost. And innovation is too often delegated to junior managers who lack the experience and power to ensure that every part of the organisation aligns around concrete metrics.

Companies that effectively control the innovation pipeline may doom a new product's chances by slashing advertising when revenues fall rather than investing to increase awareness.

Such a temptation is particularly strong in recessionary times. But investing pays off. Coca-Cola made a huge investment in its brand by striking a deal to become the official non-alcoholic beverage sponsor of the Olympic Games until 2020. After entering China's mainland market in the early 1980s, Coca-Cola built up its brands by spending twice as much as Pepsi on advertising and promotional activities over 10 years. A survey found that 38 per cent of interviewees could name Coke as a sponsor without prompting, and 86 per cent with prompting.

Many companies curtail their marketing efforts a year after a product launches because they see advertising as the easiest place to cut costs amid inflationary pressures or slowing profit growth. But our research shows that brands that consistently outgrow their categories are 67 per cent more likely to spend more on advertising than the average. Those companies commit two years to marketing campaigns after product launches, and maintain investments in older brands.

Winners understand the importance of not pulling the plug on advertising before a product has a chance to prove itself. It took Danone, the French food product company, nearly 10 years of advertising and several relaunches to make Actimel yogurt a success. Introduced in 1994, the liquid yogurt product initially failed to take off. Market research found that Actimel was perceived as a yogurt drink, not a wellness product. In 2002, the company relaunched the product with a €15 million marketing campaign. In two years, Actimel represented 16 per cent of Danone's yogurt sales in France.

It turns out our finding, published in 2003, that "any brand can win" requires a caveat: innovation and advertising are not enough. R&D and marketing budget disciplines around innovation and advertising through the brand's lifecycle can keep winning brands winning.

Jean-Charles van den Branden

WINNING IN EMERGING MARKETS

"Loyalty leaders succeed because they organise themselves in a way that helps concentrate on turning customers into promoters."

Nicholas Bloch
Partner
Bain & Company

"Try to identify the point at which the variety of products or services you offer maximises your sales and profits."

Robert Schaus
Partner
Bain & Company

Emerging markets in Asia, Latin America, and Eastern Europe are delivering some of the strongest revenue and profit growth for global makers of fast-moving consumer goods (FMCG)—everything from snacks to toothpaste—despite concerns that lower prices would translate into lower profits.

Emerging-market leaders earn 5 per cent to 15 per cent of their total revenues from the three largest emerging markets in Asia—China, India, and Indonesia. The story is similar in Russia and Eastern Europe, where these companies often dominate their target categories and exceed internal corporate benchmarks for profitability. And the trend is likely to continue: according to *The Economist*, the gross domestic product (GDP) of emerging markets equaled the GDP of advanced nations for the first time in 2005, with much of the growth coming from BRICET regions—Brazil, Russia, India, China, Eastern Europe, and Turkey.

Until the past few years, emerging markets were a low priority for the leading consumer products companies with a few exceptions, even though these markets are home to about 85 per cent of the world's population. The obstacles are still real—multinationals compete on unfamiliar terrain dominated by local players, sell at price points below those in their home countries, and wrestle with social and cultural customs. But with growth slowing in the mature markets of North America, Japan, and Western Europe, some consumer goods companies have figured out how to tap into the purchasing power of a new and growing middle class in these emerging markets. The FMCG market leaders have proven that, when armed with the right strategies, they can beat domestic competitors.

For those that surmount the obstacles, the rewards can be big. In some consumer products categories, growth in emerging markets is three times that of developed markets. While each market requires different adaptations, the emerging-market winners share six common practices. (See figure 1.)

They participate in the mass market
Historically, multinationals in developing nations targeted niche premium segments—those that traditionally delivered the highest profit margins. Typically, these companies could not manage their costs down low enough to sell

Figure 1: Winners have consistently followed the "six hard rules" in emerging markets

1) Participate in mass market

- Go beyond premium to achieve scale in distribution, manufacturing and brand building

2) Localise the 4Ps

- Product: localise product based on consumer insights
- Placement: master the dynamics of local distribution and placement
- Price: price at "sweet spots"
- Promote: invest aggressively to promote the brand

3) Manage costs aggressively

- Avoid too much specification
- Localise management and sourcing
- Reduce overhead

4) Build local team

- Empower local management and minimise regional span breakers
- Provide local management, global career paths and significant training
- Ensure expatriates have long term commitment

5) Acquire selectively

- Broaden distribution base
- Obtain local products and brands
- Tap into local talent supply
- Create low cost structure

6) Stay the course

- Consider dedicated emerging markets organisation
- Sustain investment while targeting near term profitability

to less-affluent consumers. The multinationals often were stuck with low growth, while local players expanded rapidly in the low-end segments. And local players—making the most of their low costs, better distribution, and increasing sophistication—also began launching brands in the premium segment.

As local companies moved into the premium market segments, multinationals realised that they needed to enter the mass market for both the opportunity and to play defence. What's more, participating in the mass segment allows multinationals to drive down the costs of their premium products by achieving economies of scale in raw materials purchasing, manufacturing, sales, distribution, and brand building.

They localise at every level

Homegrown competitors have several advantages, including consumer understanding and

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"Market leaders foster loyalty by empowering local teams and providing them with global opportunities."

loyalty, lower costs and home-court advantages with government regulators. But by taking the time to learn and master local market complexities, multinationals can gain a competitive edge. That often requires fundamental changes to the product offering—switching to significantly smaller pack sizes, using unconventional distribution channels, and developing products in local flavours.

Aggressive brand building is another important element of localising. And at the crux of all localisation strategies is pricing. Global marketers cannot beat out local brands unless they find the local pricing sweet spot—a competitive price in the local marketplace that also delivers a profit. Finding that sweet spot requires reconfiguring existing products or creating new ones specific to a market.

They develop a "good enough" cost mentality

Between the traditional premium and low-end market segments is the market for what we call "good enough" products, with higher quality than low-end goods but affordable prices that still generate profits. Feeding the good-enough market requires aggressive cost management. Among the techniques: taking advantage of used capital equipment or more labour-intensive production processes, using local suppliers, and outsourcing. For example, a major multinational food company discovered that it could source capital equipment from India at a third of the price it paid to European suppliers, without compromising its quality. Cost discipline also means reducing overheads and localising management.

They think global, hire local

Too often, multinationals count on expatriates to guide their entry into emerging markets, an approach that can backfire. Expatriates can drive up costs and frequently fail to deliver the deep market understanding offered by local managers. Instead of parachuting in expert expats on short assignments, winning multinationals cultivate local management teams that provide a competitive edge. The primary role of expatriates shifts from managing to developing local talent and transferring knowledge.

Market leaders foster loyalty by empowering local teams and providing them with global opportunities. It's a talent pool they can tap when entering other emerging markets. But the tight local management pools also require creativity, flexibility, and commitment. FMCG players risk becoming the training ground for their local competitors, which are sometimes ready to promote faster and pay better. A sales force turnover exceeding 50 per cent per year can be the result.

They make sure local acquisitions have a strong business fit

A strategic acquisition can accelerate a multinational's entry into an emerging market by adding popular local brands to its product lineup, broadening its reach with a stronger distribution network, providing a local talent pool, and lowering operating costs. In July 2007, Coca-Cola acquired the Russian beverage group Aquavision, giving itself state-of-the-art, expanded production capabilities. The move builds on Coke's previous purchase of Multon, strengthening the multinational's position in Eastern Europe's hotly contested soft drinks market.

They organise for emerging markets

The leaders maximise their investments by building dedicated emerging-markets capabilities. This enables them to approach each emerging market with customised strategies as distinguished from the established practices they pursue in the developed economies. For example, British American Tobacco, one of the most successful consumer goods companies in emerging markets, has long had a stable of international management talent that it deploys across Asia, Africa, and Latin America.

Danone has substantial presence in major emerging markets in Asia such as India, Indonesia, and China, which share several common characteristics—a huge geographic area, a high proportion of mom-and-pop outlets, and low price points. The company learned many things from operating in these markets, such as brand positioning to local consumers, use of low-cost Asian production equipment, and keeping overhead costs down. Danone used those lessons across the emerging markets where it operates.

With consumer markets in Asia and Eastern Europe growing at double-digit rates, multinationals are moving fast to build their brands—and the expertise to manage them in emerging markets. Indeed, succeeding in emerging markets is essential to defend—and increase—their share of the global market. How they fare in emerging markets is a critical indicator of how they will fare in the world.

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REVENUE HUNT

Description

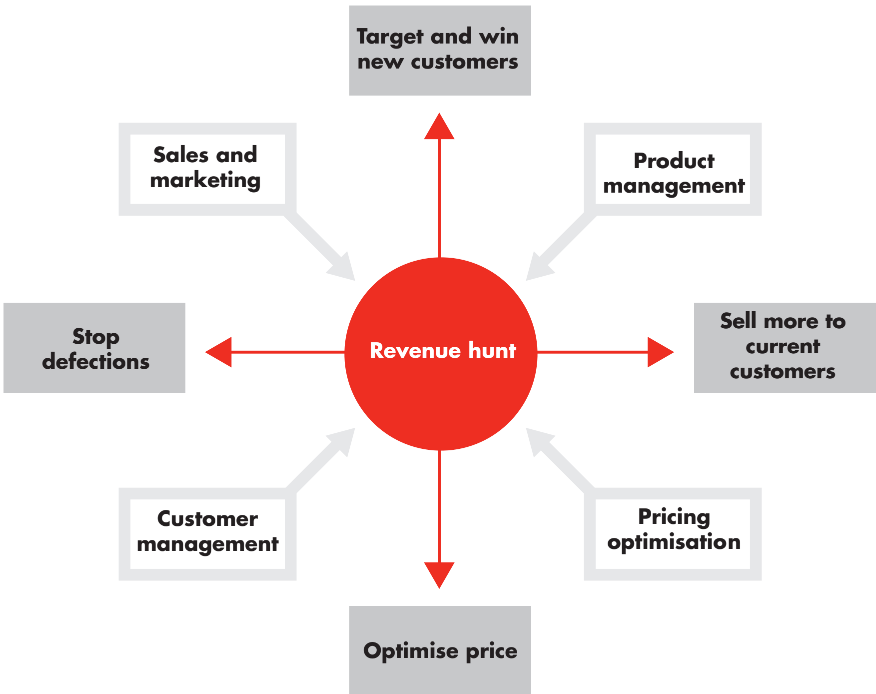
Bain's revenue sieve pinpoints where a company loses revenue, for example, by targeting the wrong segments, inefficiencies in sales, or high customer attrition. A revenue hunt focuses on rapidly identifying ways to increase revenue. It delivers "quick hits" that can be rolled out almost immediately, as well as major long-term enhancement programmes.

Bain's differentiation

Bain's deep capabilities in revenue enhancement—including customer, product and channel management; sales-force effectiveness; pricing and marketing—position us to quickly organise revenue hunts across a business and to deliver rapid results.

Bain's approach

After determining where a company is leaking revenues, we develop methodologies for acquiring new customers, growing share of wallet with existing customers, and building the loyalty of the highest-value customers. We help put in place programmes to increase revenue, such as changes in target segments, new product development, improvements to sales-force effectiveness, and revised pricing strategies.



INSURING SUCCESS

A talk with Robert Franssen, CEO of Allianz Belgium

Robert Franssen, CEO of Allianz Belgium, believes the best way to attract and retain talent is by empowering people. Equally as important are professional training, opportunities to exchange best practices with colleagues and high job mobility—all benefits of working for a large international group like Allianz SE. During his own career, he has worked in several insurance specialities, from employee benefits to corporate planning and risk management. The Eupen native chatted with us in his downtown Brussels office, furnished with several industry awards, shortly before leaving on vacation.

Can you describe the Belgian insurance market and Allianz's role within it?
It is a market of about €31 billion in premium income, and our company has a share of about 3,3 per cent. When AGF Belgium became Allianz at the end of 2007, that was a big change for us, but it is the group's strategy to rebrand more and more companies under the Allianz name. You are building on the strength of the group whose name is known worldwide. Even in Belgium, today Allianz is better known than AGF ever was. It is also good for us to have the Allianz name in one of the main countries of Europe, especially in the country where the European institutions are located. AGF was not a poor name, but we are now Allianz.

Besides the Allianz name, what are the pluses of being part of a group?
In this highly competitive market we can provide services and solutions for people ranging from individual retail clients to multinational companies. Indeed we have a department for large corporate risks, which is closely linked with Allianz's know-how and insurance capacities in Germany. This makes us unique in Belgium.

In contrast to some of your sister companies, Allianz Belgium relies exclusively on brokers for distribution. Why this approach?
Until 2003, we had a multi-channel distribution strategy in this company, so we were selling through a network of agents, a bank, brokers, and also some affiliated groups where we were selling directly. We decided instead to concentrate on one distribution channel, namely independent brokers. That went against the industry trend, but I think we were right. First, we wanted to reduce the level of complexity in our company. When you are a midsize company you cannot do everything, so we have to make

With a 180,000-strong work force, Allianz SE serves more than 80 million customers in 70 countries. Based in Munich, Allianz booked more than €102 billion in revenues and managed €765 billion in third-party assets as of Dec. 31, 2007. Formerly AGF Belgium, Allianz Belgium employs more than 1,000 people.

choices. It also allows you to focus all your means and resources on one goal. In terms of both internal and external communication, as well as avoiding conflicts among distribution channels, it is also highly effective.

What areas of insurance are experiencing the most dynamic growth?
Life and pensions. In this country we are facing a demographic problem, as an ageing population puts an increasing burden on state-funded pension schemes. This is where private insurers and pension funds can offer a real solution. I do not mean to put the insurance market in opposition to the state provisions, but we have to be a partner. Everybody has an important role to play.

Why are insurers less affected by the global credit crunch than banks?
With the exception of perhaps one large insurer in the United States, insurers invested only marginally in collateralised debt obligations and other high-risk credit instruments. As a result, we have not had to write off a lot of bad results. This is good news for our policyholders because the solvency of the majority of insurance companies is very strong. That is important because in this industry we have long-term commitments.

Finally, what qualities make a good manager?
You must define exactly what you want, and know your strengths and weaknesses, your position in the market and the means you have to develop in this market. The members of the management of the company must share the same vision of where they are going. My management style is all about delegating. One person cannot do everything, but if you delegate you also have to control. It also requires trust. You should allow some mistakes—not too many, but you have to trust people. If you don't trust people, they won't perform.

Interview conducted by Renée Cordes.

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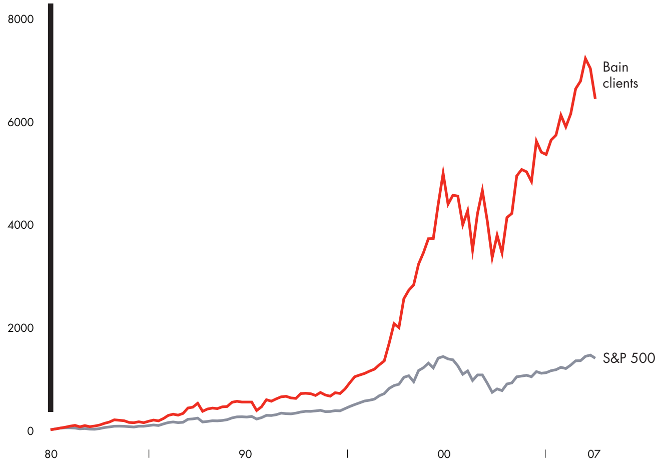

Note: Calculation and data attested to by PricewaterhouseCoopers through December 2007.

Bain & Company is one of the world's leading global business consulting firms, serving clients across six continents on issues of strategy, organisation, mergers and acquisitions, performance improvement, information technology and change management. It was founded in 1973 on the principle that consultants must measure their success in terms of their clients' financial results. Bain's clients have outperformed the stock market 4 to 1. With offices in all major cities, Bain has worked with more than 3,900 major multinational and other corporations from every economic sector, in every region of the world.

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