Council on Emerging Markets

Istanbul Executive Roundtable Executive Brief Series

Winning Strategies to Overcome Low-Cost Competitors

Council members recently convened in Istanbul to discuss their most pressing business challenges. At this member forum, the Council shared research and facilitated conversations to highlight the business risks and potential rewards of key markets across EMEA.

Frontier Strategy Group has prepared a three-part executive brief series to share the best practices that emerged from this meeting. The first executive brief, released in November 2009, discussed effective methods to mitigate corruptions risks in Central and Eastern Europe. The second executive brief, released in early December 2009, discussed strategies to overcome low-cost competitors through innovative service solutions. This third and final brief, "Government Reborn: Aligning with Your New Key Customer," shares four strategies to gain access to government customers.

"We have … developed a well trained and efficient field force that supports our products at the retail point of sale and a strong portfolio of products throughout all major relevant market segments. We are well based to grow our business further in CEE over the long term."

— Senior CEM executive, Tobacco company

"To avoid relegation to the status of a logistics and warehousing partner, distributors are trying to rebrand as 'sales and marketing organizations' to stress value-added service. MNCs are also stressing services and knowledge input rather than selling on price only."

— Senior CEM executive, Chemicals company

Background

FSG research confirms that governments are driving global economic recovery and will become the new key customer for Western MNCs. Russia has introduced a $209 billion stimulus package, Turkey announced a $2 billion stimulus package, and governments in the Middle East will benefit from windfall profits from previous years' high oil prices and an expectation to return to higher GDP growth in 2010 and beyond. Council members must seize the opportunity to capture government spending and as such must engage the right stakeholders and effectively execute on new business opportunities.

Council executives and FSG analysts have identified the following four strategies for establishing closer relationships with government stakeholders and identifying opportunities for new sales.

Effective strategies for challenging low-cost competitors

1. Stress service quality, knowledge exchange, and technology transfer rather than low prices

Successful MNCs in the industrial and technology sectors have rebranded themselves as service- and value-additive rather than as least expensive. One chemicals distributor that could no longer compete on price rebranded itself as a sales and marketing organization that can provide more than just distribution capabilities. A technology company focuses on providing skills and technology training through university partnerships. Demonstrating its commitment to the local population helps win market share and differentiate the company from emerging markets competitors.

2. Diversify product portfolios to capture consumer down-trading

Western MNCs in the consumer goods sector that rely on one consumer segment risk losing their customers during economic crises because customers shift spending habits with economic cycles. A tobacco company anticipated that its customers would shift to a lower tier given diminished disposable income during the crisis. The company thus emphasized mid- to low-tier brands to win these customers from other low-cost competitors and pirated brands and offset a fall in premium-brand sales.

A consumer goods company with brand-conscious and quality-driven consumers modified its package sizes to reduce the cost to the consumer. By broadening its product portfolio and offering existing premium products in smaller packages, this company maintained its brand status, preserved its profit margins, and secured its customer base.

3. Tap local staff for strategic input on product innovation and consumer preferences

Retail-focused MNCs often lack the necessary local knowledge to properly evaluate marketing efforts and consumer segmentation. Given that local competitors understand the market intimately, MNCs must tap local partners to acquire product feedback.

One Western clothing company in Pakistan confronted modest retail penetration and a lack of market knowledge by screening potential franchise partners based on their ability to collect and convey market data. Additionally, the company surveyed local staff for insight into optimizing retail locations and targeting Pakistani customers.

4. Consolidate distributors to reinforce sales channels

Small local partners that distribute only one product often become financially distressed during economic crises. MNCs that rely on these vulnerable partners risk delayed payments and stagnant inventories; they therefore must evaluate their distributor's financial health to understand their vulnerabilities prior to and during a crisis. Additionally, companies should examine M&A trends among distributors to identify partners that are thriving through the downturn.

One consumer goods company began closely monitoring its distributors to determine which were strongest and thus most reliable; it shifted business to those that were financially viable to encourage the ongoing consolidation process. The company saw increased operational efficiencies, which helped cut costs and increase speed to market.