



How to Win in Emerging Markets: Lessons from Japan

by Shigeki Ichii, Susumu Hattori, and David Michael

If you're a consumer in one of the world's developed economies and you think that Japan is full of powerhouse exporters, you're right. Hitachi, Panasonic, Sony, Toyota—many Japanese multinationals became household names in the second half of the 20th century. If you're a consumer in an emerging market, though, you probably don't view Japanese companies the same way. In fact, it's possible that you have never used a product made by one of those giants.

Most Japanese companies moved up from the bottom in developed countries, but they have chosen to enter developing countries at the top of the consumer pyramid. Afterward they have struggled

to move into the middle and low-end segments, where economies of scale and scope—and profits—can be found. As a result, these companies are at risk of becoming also-rans in the world's fastest-growing markets.

That poses a threat to their very existence. After all, growth in the developed economies is slowing to a crawl. Goldman Sachs forecasts that these markets will grow at an average annual rate of 2% from 2011 to 2020, while the developing economies, such as Brazil, Russia, India, and China, are expected to grow at an average annual rate of nearly 7% during the same period. Not surprisingly, in January 2012 Japan reported its first annual trade deficit

ABOVE
Toyotas bound for export from Sendai, September 2011

Where Japan Inc. Leads—and Where It Doesn't

Our study of seven product categories in Brazil, Russia, India, China, and Indonesia reveals that few Japanese companies are leaders in these markets, where multinational corporations dominate.

in 31 years. Honda, Sony, and Toyota—companies that generate two-thirds or more of their annual revenues overseas—saw their sales abroad fall or stagnate from 2005 to 2010. This suggests that their emerging market performance wasn't great enough to offset the effects of those sluggish developed economies. The global recession wasn't to blame: During the same period, Volkswagen and Hyundai had double-digit overseas sales growth that was driven largely by progress in emerging markets. Clearly, if Japanese companies wish to expand, they must make deeper inroads into those markets.

Our recent analysis of seven product categories in Brazil, Russia, India, China, and Indonesia found that with the exception of Indonesia (where Toyota, Sharp, and Unicharm have leading positions in the automotive, home appliances, and retail hygiene markets, respectively) and India (where Suzuki has led in the automotive industry since the mid-1980s), Japan's manufacturers are trailing in each market. Tellingly, rival multinationals, rather than local corporations, dominate there. For instance, South Korea's LG is the leader in TVs in Brazil, India, and Indonesia. In personal-care products Procter & Gamble and Unilever dominate except in Brazil, where the local player Natura is number one. And so on. (See the exhibit "Where Japan Inc. Leads—and Where It Doesn't.")

After Japan rebuilds a domestic market ravaged by the 2011 earthquake and tsunami, its companies will need to grow—and quickly—in emerging markets. They won't succeed unless they rethink their strategies and overcome four structural challenges. It may be tough but it won't be impossible to catch up with their rivals—as two Japanese companies, Unicharm and Daikin, are showing.

The Four Challenges

Japan's multinationals have underestimated the speed at which emerging economies change. Smart local companies and foreign multinationals respond quickly to these shifts, but most Japanese corpo-

	BRAZIL	RUSSIA	INDIA	CHINA	INDONESIA
AUTOMOTIVE					
	FIAT	AVTOVAZ	SUZUKI	VOLKSWAGEN	TOYOTA
TVS					
	LG	SAMSUNG	LG / SAMSUNG	HISENSE	LG
HOME APPLIANCES					
	WHIRLPOOL	INDESIT	LG	HAIER	SHARP
RETAIL HYGIENE					
	P&G	P&G	P&G	P&G	UNICHARM
BEAUTY & PERSONAL CARE					
	NATURA	P&G	UNILEVER	P&G	UNILEVER
BEVERAGES					
	ABI	CARLSBERG	UB GROUP	CHINA RESOURCES ENTERPRISE	SINAR SOSRO
PACKAGED FOOD					
	NESTLÉ	WIMM-BILL-DANN	GUJARAT COOP MILK MARKETING	INNER MONGOLIA MENGNIU DAIRY	INDOFOOD SUKSES MAKMUR
	MNC	LOCAL COMPANY	JAPANESE COMPANY		

SOURCE BCG

rations are hamstrung by distaste for the middle and low-end segments of the market; aversion to mergers and acquisitions; reluctance to commit—financially and organizationally—in emerging markets; and a failure to properly allocate talent.

1. Distaste for the middle and low-end segments. Most companies that are breaking into emerging economies find their sweet spots in these segments of the market. But in recent years Japan's companies have focused on the high end, a strategy that brings them success in established markets. Although that segment is expanding in developing countries, competition is fierce, and Japanese companies tend not to utilize premium-brand strategies to differentiate their products.

For example, inexpensive but clunky cathode-ray-tube televisions are still dominant in India and accounted for 70% of the sets sold there in 2009, yet Japan's electronics companies concentrate on selling

more-expensive flat-screen TVs. By homing in on the middle and low-end segments, LG, Samsung, and India's Videocon have captured the market: The two South Korean companies each have a 25% share, and Videocon has a 19% share. The three largest Japanese manufacturers—Sony, Panasonic, and Toshiba—collectively have a paltry 13%.

Japanese companies do not seem to understand the strategic importance of gaining share while a category grows. With 80% of its sales coming from the low end in India, LG has created a platform for future growth. Its extensive presence has given it bargaining power with retailers and distributors and has lowered its sales and marketing costs. These advantages will persist when the market shifts to more-sophisticated, higher-margin devices.

2. Aversion to M&A. Japanese companies shy away from, or are slow to undertake, expansion through mergers, acquisitions, and partnerships in emerging

A Typology of Corporate Japan

An analysis of Japanese companies' sales and growth rates from 2005 to 2010 suggests that most operate only at home or in developed markets overseas. Few are committed to emerging markets.

◀ LOW CAGR/LOW OVERSEAS SALES

HIGH CAGR/HIGH OVERSEAS SALES ▶

DOMESTIC MARKET FOCUS

These companies aren't venturing out of Japan much.

NISSIN FOODS
SAPPORO
DAIHATSU
TOYO SUISAN
NEC
KOSÉ
LION
YAKULT
MITSUBISHI ELECTRIC
AJINOMOTO

DEVELOPED MARKET FOCUS

Some leading Japanese companies have a strong presence in developed markets but aren't growing in emerging markets.

TOYOTA
NISSAN
SUZUKI
MAZDA
HONDA
SONY

OVERSEAS BEGINNERS

These companies are growing fast in emerging markets, but they're playing catch-up.

HOUSE FOODS
FANCL
KIRIN
KOBAYASHI PHARMACEUTICAL
ASAHI BREWERIES

EMERGING MARKET CHAMPIONS

These players already have a strong emerging-market presence and are enjoying fast growth.

DAIKIN
UNICHARM

SOURCE BCG

markets, even though that is frequently the fastest way to gain economies of scale, market share, distribution channels, and capabilities. From 2006 to 2010 Japanese companies announced just 387 acquisitions in emerging markets, compared with 2,349 by U.S. companies, 998 by British, 555 by French, and 505 by German. This go-it-alone approach has cost the Japanese growth in markets that are frequently difficult to penetrate through organic expansion. Decision making at Japanese companies tends to be slow, and if they do decide to acquire, often the most attractive targets have already been snatched up by other multinationals.

For example, Anheuser-Busch InBev (ABI), the world's largest brewer, solidified its presence in China through acquisitions of or partnerships with a number of local beer companies. These included Harbin and Sedrin—China's fourth- and seventh-largest brands, respectively, with 5.3% and 2.6% of market share—and allowed the company to expand its product portfolio and its penetration of the middle and low market segments. ABI is now the third-largest brewer in China, with nearly 12% of market share in 2011, after China Resources Enterprise and Tsingtao Brewery (in which ABI has an equity stake).

In contrast, Japanese beer companies have little presence in the Chinese market, where the local brands they have acquired have a much lower market share than those of the brands ABI purchased. Yantai, the largest local brand acquired by a Japanese

brewer (Asahi), has only a 0.4% market share.

3. Lack of commitment. Many Japanese companies have simply not made the financial or organizational commitments necessary to win in emerging markets. Their big investments are still in Japan, the United States, and Europe. At the end of 2010 the United States and Western Europe still accounted for 54% of Japan's foreign direct investment.

LG was relatively slow to build a consumer electronics business in India, entering the country only in 1997. But it invested \$300 million in two plants there during its first 10 years and has announced plans for a third. LG's bets are paying off: In 2009 it succeeded in generating \$3 billion in revenues in India—more than all the Japanese consumer electronics companies combined generated in the country. Japanese companies entered the Indian market in the early 1990s, but their focus on the high end made them hesitant to make large investments.

4. Lack of talent. A shortage of managerial competency, too, holds back Japanese companies in emerging markets. Be-

cause they underestimate the importance of those markets, they're reluctant to post high-ranking executives there. They also rarely offer competitive compensation and promotion opportunities to local executives, and therefore have not built a strong cadre of talent with intimate market knowledge. Without local managers in key positions, any multinational has difficulty customizing products to local conditions, responding quickly to changes in the market, and breaking into new segments.

LG deftly balances locally recruited managers with talent from the home office. The head of its consumer electronics business in India and a few important functional executives are South Korean expats; the rest are local, and they have full decision-making authority except on key investments. LG's managers in India have the authority to add local languages on setup menus, to use subcontractors for basic assembly to lower costs, and to modify television sets to address performance issues related to power fluctuations.

In contrast, Japanese electronics companies are heavily weighted with expats, who hold a majority of key management

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positions and have a narrower scope of authority than their counterparts at LG. At one famous Japanese electronics company, expats occupy 20 of the 350 positions in the Indian market. At LG they hold only 15 of 5,500 positions.

Getting It Right

As noted above, two Japanese multinationals have started winning in developing economies: Unicharm, a manufacturer of personal-care products, and Daikin, one of the world's largest air-conditioning manufacturers. According to the Boston Consulting Group's estimates, more than 80% of Unicharm's overseas sales and more than 50% of Daikin's come from emerging markets.

Unicharm tailors its products to developing countries, targeting the middle class in second- and third-tier cities that other multinationals overlook. The company began a serious push into other Asian markets in the early 1990s. In 1995 it started making disposable diapers in China. When Unicharm enters a new market, it sends some Japanese executives to transfer knowledge and its unique management practices to the subsidiary, but it focuses on building local expertise.

Today Unicharm holds the top share in diapers in Indonesia and Thailand and the second-largest share in China, competing against Procter & Gamble, Kimberly-Clark, and local players. Powered by an average sales growth rate of 48% from 2006 to 2010, its China business has become a major source of its profit growth.

Daikin entered China in 1995 and began local production the following year, focusing on the B2B market to leverage its technological advantage. The share of Daikin's sales that come from overseas grew from 46% in 2005 to 62% in 2010, when China alone accounted for 16% of sales overall. Daikin is now looking hard at other emerging markets, primarily India and Brazil.

Unicharm and Daikin have addressed the four structural challenges in similar ways:

They went after the middle market. Both companies have high-end

products, but they recognized the need to reach the mass market. In Indonesia, Unicharm redesigned diapers and sourced material locally to cut prices by 40%; developed close relationships with traditional mom-and-pop retailers; and hosts events with wholesalers, giving attendees volume discounts. Since Unicharm launched MamyPoko Pants Standar in Indonesia, in 2007, its share of the Indonesian diaper market has risen from 23% to 30%, with the gain largely wrested from Procter & Gamble and major local players.

Daikin uses differing approaches in China and India. China's high-end market is large enough to provide decent growth potential, so the company entered at the top to establish its brand and then leveraged its presence to move down into the middle market. It now focuses on China's largely underpenetrated interior. In India the company originally tried to enter the much smaller high end but discovered that the competition from LG and Samsung was too stiff, so it lowered its sights. Daikin has entered two first-tier cities and nearly two dozen second- and third-tier cities with a

low-price product and has reduced its 50% price gap with LG and Samsung to 10% to 15%. LG and Samsung together have a 50% share of the Indian market, but Daikin executives are confident. They aim to capture 10% of market share in 2013 (having had 5% in 2010) and to become the third big player by 2015.

They made deals. Mergers and acquisitions are difficult to implement and integrate, especially in unfamiliar markets, so they should be approached cautiously. But they are frequently the best way to advance in developing nations.

Daikin has been aggressive in making acquisitions. In 2006 it spent \$2.1 billion to acquire Malaysia's OYL in order to accelerate growth in India, Russia, Brazil, and the United States. In China's middle market the company faced a formidable competitor in Gree, a local giant with a 40% market share. Rather than try to compete head-on, Daikin established two joint ventures with Gree. Analysts have questioned whether Daikin will lose control over key technology, but the strategy seems to be working: The company has leveraged Gree's supplier base to reduce its cost of goods sold by 20% while



"Your drug test results show you aren't taking any performance-enhancing drugs. Your performance review results show that maybe you should."



MANAGEMENT TIP OF THE DAY

HARVARD BUSINESS REVIEW

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HARVARD BUSINESS REVIEW OFFERS
QUICK, PRACTICAL MANAGEMENT ADVICE
FOR TODAY'S EMERGING LEADERS

Three Tips for Making a High-Stakes Decision

Even the most decisive manager can face despair when dealing with a high-stakes matter. Next time you're up against a career-making decision, try doing these three things:

- **Trust, and challenge, your gut.** In some cases, your first instinct may be right, but it's probably not based on rational thought. It's important to question your initial reaction and test it once you've gathered more data.
- **Check your bias.** Self-interest can be subconscious. Recognize when you may be partial and ask a trusted peer to double-check your decision for any prejudice.
- **Involve others.** Big decisions shouldn't happen in a vacuum. Consult with others to gather differing opinions. This will help you make a more informed choice and give you a better shot at winning buy-in.

Adapted from "How to Make a High-Stakes Decision" by Amy Gallo.

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These companies must reexamine their stance on the consumer pyramid: What brought them success in the past isn't working now.

accessing Gree's distribution, R&D, and quality-control systems.

Unicharm, too, has actively pursued acquisitions and partnerships in emerging markets: It has a joint venture in Saudi Arabia and recently acquired Diana, the second-largest player in Vietnam.

They fully committed to emerging markets. Even though Japan is still the largest market for Unicharm, the company decided that it had to shift the focus of its organization, resources, and strategy if it wanted to gain local insight and succeed. It transferred some of its strongest marketing, R&D, and manufacturing executives to developing countries and appointed one of its top five executives to head its China operations. Unicharm's overseas sales have grown from ¥68 billion in 2005 to ¥159 billion in 2010, and the share of those sales generated in emerging markets rose from 70% to nearly 90%, according to BCG's estimates.

Daikin has set up an R&D center in India to develop products tailored to the local market. In 2011 it doubled the number of its sales and marketing outlets in China, and it is pushing further into the fast-growing inland markets.

They went local. Both Unicharm and Daikin have created strong local management platforms. Unicharm transferred more than 20 key executives to China and has started to localize important decision-making processes there. It also moved several critical functions to China, including product conception and planning, production equipment design, and sales planning.

Daikin has appointed a local executive to run its operations in India, has empowered local executives with product-development authority, and is targeting a high degree of product localization. The company currently has more than 300 em-

ployees working on product development in China alone.

SOME JAPANESE companies are already becoming more aggressive in their investments in emerging markets. Although a serious financial commitment is necessary to succeed in developing countries, that addresses only one of the four challenges. These companies must also reexamine their stance on the consumer pyramid, recognizing that what brought them success in the past isn't working now. They must consider acquiring or partnering with companies that have cultures dramatically different from their own. Some are already catching on to this: In 2011 the number of overseas M&A deals executed by Japanese companies was close to its historical high of 455 and included those conducted by Japanese brewers who are actively acquiring or partnering with local players, especially in Southeast Asia and Brazil. These multinationals must also find the proper blend of local talent and homegrown expertise, regardless of how they usually do business. Being a Japanese company in an emerging market is different from being a Japanese company in Japan.

Decades ago, when they entered the U.S. auto industry, Japanese companies figured out how to balance global capabilities with local needs. If they can adapt their capabilities in customer insight, talent management, and general management to overcome the hurdles they now face in emerging markets, they will win new consumers on the world's most important growth frontier. ♥ **HBR Reprint R1205J**

Shigeki Ichii and **Susumu Hattori** are partners and managing directors of the Boston Consulting Group in Tokyo. **David Michael** is a senior partner and managing director of BCG in Beijing.

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