

Global Emerging Markets

Managing Emerging Markets Growth

by Harsh Koppula



finding *new answers* in business.



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Q&A with Harsh Koppula, Managing Partner, CGN

After successfully entering an emerging market and establishing a foothold, companies are immediately faced with yet another daunting task: They must develop a plan to strategically grow the business and capture the tremendous economic opportunities emerging markets offer. Smart growth is difficult, though, and the obstacles to success are many.

Studies have shown that only about 5 percent of companies can master the complexity of emerging markets but those that do are 75 percent more profitable than every other company in their competitive set. If companies can successfully navigate all of these challenges and can focus on the market and grow in an intelligent manner, the opportunity for growth is tremendous. Below, Harsh Koppula, Managing Partner at CGN, addresses the challenges organizations face as they attempt to expand their business in today's volatile emerging markets.

1. What factors make growing in emerging markets more challenging today?

One of the biggest challenges facing foreign companies in emerging markets today is the complexity of demand. In these markets, demand is often highly volatile, which can be confusing to foreign organizations. Leaders in these companies are accustomed to their own markets, where they understand demand patterns; they can predict economic cycles; they have a better grasp on consumer behavior. Their forecasting models in those markets are relatively mature and developed.

But in emerging markets, everything changes. Supply and demand shape demand are not easily understood. Foreign companies often get rattled by this uncertainty and this new set of variables. Their management teams have trouble processing all of the new information and that tends to ripple through their entire value chain.

Companies also must consider the significant variability of several important economic drivers in emerging markets. For example, currency fluctuation can be significant. The volatility of demand can impact commodity prices, which rise and fall with demand. And because wages in emerging markets are rising substantially, labor may not be as cost-

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effective as expected. When organizations struggle with this variability, they begin to lose their pricing power in the market and their costs begin to rise. This might cause them to shrink in order to become profitable – or, in some cases, to pull out of the market altogether.

Another challenge to growth is increased competition from local companies. These local organizations may not be as sophisticated but they understand the market and they have cost-structure advantages. They don't have much overhead and they're able to sell products at a very reasonable cost, which presents a big challenge to foreign companies.

Over the last eight to 10 years, the landscape has become very different. Demand volatility, commodity price fluctuation – all of these factors have accelerated and it is very difficult for companies to deal with them.

2. What advice would you give organizations that are looking to expand in emerging markets?

I would say you need to fully commit yourself to the market. You need to deploy the necessary talent, both in terms of quality and quantity. If you don't have a highly motivated team that is going to work hard to lay out a strategy and then execute it quickly, you will certainly not succeed.

But you also need a solid business structure that ties the organization together. Every part of your company needs to be running optimally because as you're executing your strategy, you will need to be able to synchronize and maneuver all of your moving pieces with precision and speed. In effect, you're really running a war room. You must constantly be asking: "Where is talent short? Where is supply short? Where is information short?"

And if flexibility is still important in developed markets, where fluctuation is relatively tame, it is absolutely vital in emerging markets. All aspects of your entire enterprise must be designed to turn on a dime in response to market and environment changes. Your business strategies can, and likely will, transform very quickly, so you need to be able to detect changing trends and then adjust to them rapidly.

3. How does an organization gain that kind of flexibility?

One way to achieve flexibility is to refrain from investing in hard infrastructure in emerging markets. Instead of building that infrastructure, companies can buy options on capacity. This way, if demand takes off in a particular direction, you are already 75 or 80 percent ready to adjust and the rest is easier to achieve. Getting the option on that 75 percent is much less expensive than putting 100 percent of hard infrastructure in place.

For example, if you're trying to build a distribution network to get your product to the market, you might use partners that are collecting demand from different companies and setting up infrastructure to service them. By using their infrastructure, you gain a certain amount of flexibility. You can reduce your risk and react quickly to changes in demand. If demand drops off, you can adjust or pull out and you're not hindered by a big investment.

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4. How does CGN help guide companies that are looking to grow in emerging markets?

Well, at CGN this is what we do. We develop market strategies for global businesses: which markets to pursue, which ones not to pursue, where to follow through, where to devote more resources. Essentially, though, our core expertise is in large, complex, end-to-end global supply chains. We focus on everything from market demand to the integrity of the farthest tip of the supply chain.

Most organizations fail with the weakest link in the chain. We have the ability to walk in and immediately identify what part of the supply chain is likely to fail and then offer suggestions for fixing it. Companies often give a lot of attention to their tier one suppliers, overlooking the manner in which the tier one suppliers are managing tier two and tier three suppliers. Even in developed markets, these are often weak; in emerging markets they are, by and large, huge bottlenecks. That's why we examine the entire supply chain. If you don't know the modes of failure, you can't anticipate them and you won't have preventive measures in place.

We help companies master the complexity of emerging markets. If you don't master that complexity, you simply can't grow. So we transform our clients' businesses and their supply chains to make them more flexible, to make them faster, to ensure that they have the right talent and, perhaps most importantly, to make sure they have the right strategies in place to grow and succeed.

CGN makes it possible for companies around the world to *transform* their organizations, improve their performance and become more profitable.

We see the big picture, identify and solve core problems, discover new opportunities and implement the game-changing strategies that will deliver sustainable results. We use our niche experience and broad knowledge to solve complex problems in all areas of your business. We become a part of our clients' teams—creating the strategy and providing the expertise needed to implement high-velocity, breakthrough solutions.

CGN is a global management consulting firm with offices in the United States, Europe, China and India.



Our Focus Areas

Global Emerging Markets Strategy

CGN takes the guesswork out of new markets, with local teams that know their markets and use that knowledge to create a strategy for your successful growth—and then work with you to execute it quickly and effectively. Our expertise includes new market analysis, market entry strategy, manufacturing footprints, network mapping, supplier development and supply chain management.

Global Supply Chain & Operations

We can turn your supply chain into one of your biggest assets. Our experienced practitioners look at your supply chain from end to end—understanding your costs, identifying savings opportunities and developing a strategy to improve your overall efficiency. We help you develop an agile, responsive and flexible supply chain to manage the volatility in global demand and supply.

Global Supplier Collaboration & Procurement

Superior supplier partnerships can help you improve quality and efficiency throughout your entire supply chain—increasing cash flow and productivity. We offer sourcing strategy and relationship support through our signature processes and tools, aiding you in supplier rationalization, cost modeling, product lifecycle cost management, supplier performance management, quality assurance and improvement.

Organizational Transformation

CGN will transform your business—identifying needs to restructure, reposition and resize, developing the path, and executing with your team. We help you align strategic and organizational design, engage talent and build strong cultures, accelerate change and deliver breakthrough performance.

Business Technology Integration

CGN bridges the gap between business and technology—aligning the two to ensure IT facilitates the successful implementation of your business strategy. We provide advisory, implementation and support services, including process and technology definition, governance support, systems integration and business intelligence.

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