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SCALING THE TAIL

Managing Profitable Growth
in Emerging Markets

**Seung Ho Park,
Gerardo R. Ungson and
Andrew Cosgrove**





Scaling the Tail

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SCALING THE TAIL

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Foreword



In emerging markets, the adage “the only constant is change” is self-evident. The tried-and-true strategies that multinational companies have used in emerging markets are no longer working. What the world has witnessed is nothing short of a complete revolution in the requirements for success in emerging markets. Local markets are no longer easy and fertile ground in which major multinationals can enter and flourish on auto-pilot. Local companies have recognized the threat of the immense resources and economies of scale possessed by major multinational corporations. In response, local companies have appealed more specifically and effectively to local customers, a task for which they are uniquely qualified. Of course, the owners, employees, and marketing strategies of these local companies are typically from the country and culture of interest. From this perspective, it is understandable that a “one-size-fits-all” approach would eventually fail on a large scale. In fact, it could be argued that multinational companies could be grateful that their generic strategies have worked for as long as they could in emerging markets. However, what are they to do now?

This book appears at a crucial inflexion point in the fate of multinational corporations in consumer goods and retailing sectors. It provides right answers to the following two core questions: (1) Why are so many major multinational companies failing in emerging markets? and (2) Exactly what actions can these and other companies take to succeed in these radically changed environments? To answer these questions, under the auspices of a

collaborative team involving EY and the Economist Intelligence Unit, the authors have conducted in-depth field interviews, along with a survey of 253 managers across 10 countries. From these data, they present a model that prescribes the specific actions that multinational companies can take to compete effectively with local companies and sustain profitable growth.

Scaling the Tail: Managing Profitable Growth in Emerging Markets presents an important means. Companies will fail or prosper depending on whether or not they understand the current situation and take the suggestions made in this book. Companies that follow its prescriptions should enjoy profitable growth that exceeds what they achieved when their “one-size-fits-all” strategies were still appropriate. Cost-effective customization rather than cost-efficient standardization should guide the strategies of multinational corporations.

John Quelch
Harvard Business School

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EY has published its own report, *Profit-or-Lose: Balancing the Growth-Profit Paradox for Global Consumer Products Companies and Retailers in Asia's Emerging Markets*, EYG no. ENo519; CSG/GSC2013/1164313; ED 1015. This report details the analysis of the survey, interviews, and recommendations. Because EY has its own focus of interest that might not necessarily coincide with this book, we highly recommend a reading of this companion report.

We acknowledge a special debt to Dr. Nan Zhou, formerly a Research Fellow of the Institute for Emerging Market Studies (IEMS). As a coauthor of our earlier book *Rough Diamonds: the Four Successful Traits of Breakout Firms in BRIC Countries*, she participated in cradling the topic of profitable growth when she was with IEMS. In this study, she participated in some of the field interviews, conducted the case studies, supervised the student assistants, and undertook the initial analysis and presentation of the survey results.

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Part I

What Distinguishes
Emerging Markets Today?



1

Introduction



Abstract: *This chapter provides an overview of our core arguments. Although profitable growth is widely acclaimed, there are differences on how to approach it. Traditional strategies for emerging markets emphasize entering large and undifferentiated markets, recalibrating products to make them more attractive and affordable for targeted segments, and capitalizing on economies of scale and scope to reduce overall costs. Our research indicates that this approach is limited, if not misplaced, when addressing the emerging needs of affluent middle-class sectors. An alternative logic focuses on building mass sales at the periphery of the distribution using broad differentiation strategies. This is developed with select partners as an overarching theme throughout the book and supported by field interviews and a survey of consumer goods in select Asian countries.*

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