Decision Making
Is the foundation of
Performance

CEO POINT OF VIEW QUARTERLY q3

Thinking Dimensions Global

Insights and Actions for Executives

CEO P.O.V.

New Markets: How to Drive Global Growth and Predictability of Earnings Despite Periods of Economic Instability

New Market entry is a strategic choice that must be deliberately made. It is the most natural path for growth because it intuitively asks 'if we are having success with our products where else can we sell them"?

In our (TD) experience, being successful in entering a new market during periods of economic instability requires a mix of different capabilities that go far beyond the sales and commercial ones.

The error we see many organizations make is to assume that successfully entering a new market is a project that can or should be managed by the sales or commercial function only.

We think that an effective new marketing strategy is based on series of steps or core decisions points that require proper alignment and integration among all the functions within the organization.

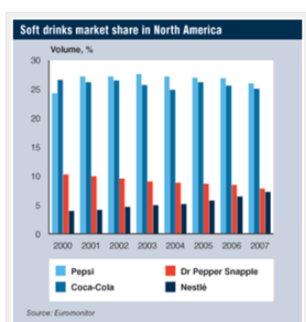
The main intent of this document is to present a series of thoughts and examples you as a manager, can use to improve the way your company enter new markets.

The error we see many organizations make is to assume that "entering a new market" is a project that can or should be managed by the sales or commercial function only

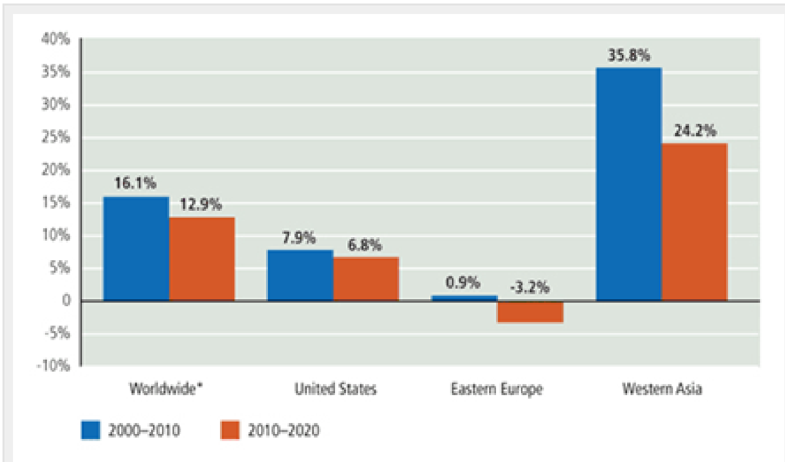
1. NEW MARKET ENTRY REQUIRES SPECIFIC CAPABILITIES TO SUCCEED

As companies grow over time there reaches a point for many where they have had success but run into growth barriers including:

- **High Market Share** – they have a sufficient share and are succeeding in home markets – but it's getting tougher to sustain growth e.g. think of Coca Cola and Pepsi in North America – with a population growth that is relatively flat – there is only so much room for more people to drink more colas. The chart on the right indicates the flatness of the market in North America – where new growth through existing products is like squeezing blood from a stone.



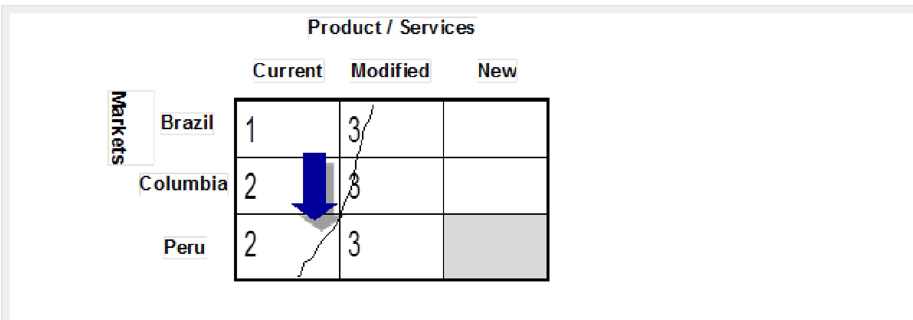
- **Mature Markets**- the market is maturing i.e. reshaping market needs requiring a change in product or face obsolesce. The chart below - Comparative Regional & U.S. Workforce Growth 2000 to 2020 - clearly shows that the type of needs in the US are much different than Asia – as the workforce or consumer is in a different stage of the lifecycle.



- **Emerging Markets** – global markets become more attractive because opportunity is driven through size, proximity, scale or changing trade barriers and dynamics. If you are a company serving North America or Western Europe this chart clearly underscores what you already know – to sustain growth you must be prepared to look outside your traditional region.

As companies grow over time there reaches a point for many where they have had success but run into growth barriers.

To overcome these barriers and find growth for your company this deliberate choice is to enter new markets or another way to say it is to move to a “Products Offered” growth strategy. In a recent client example our client wanted to find new growth and formalize their path for growth in Latin America – looking to bring their proven product and service platforms to both Columbia and Peru.



With this deliberate choice for growth based on sound analytics and matched to their strategic assumptions they now are preparing the required capabilities for this choice. This is where many companies “fall down” on their growth adventures – they believe they can take exactly the same products and processes and replicate them in new markets. The reality is (although the fundamental needs may be basically the same) the new market development requires clear investments in skills, people, capabilities and processes to accomplish strategic goals and targets.

The following four capabilities are essential for success when seeking to enter new segments (emerging markets).

1. **Product development capability** for the modification of current products – whether “language” instructions, imperial to metric size changes, certifications by country and region, or even simply what colors and names “work” for the market.

2. **Market research capability** for identifying segments with the same needs the company’s current products satisfy. This business intelligence must be gathered and factored into the decision making

process and it cannot be only a gut feel that says “ I believe there is a market there”.

3. **Marketing capability** for entering new markets with the company’s products. How the product is promoted to one country does not translate to another necessarily.

4. **Sales capability** for convincing new markets to accept their products. This many times requires new hires in the locations and a patience for realizing profits in the bank, as the norms for selling and getting paid or even getting your money out of the country are different.

As I noted at the start the majority of global trends and opportunities that support the drive to enter emerging markets are sound, but your strategic decision making process must be deliberate and based on data as you invest in your future.

2. SETTING THE TIME-HORIZON

In the decision making process a CEO adopts to make decisions about “new market entry”, there is one question that a he/she make himself: “What is the time horizon I should set when entering a new market before expecting to see results in my Income Statement/P&L?”

The answer to the question starts with setting the critical few-maximum eight- strategic performance indicators (SPI) which reflect how well the strategy is progressing- taking into account both leading and lagging information. The expectations must be based on your most accurate strategic assumptions combined with as close to real-time market data as you are able to assemble.

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One area you can refer to in validating timing horizons is to compare them with your overall strategic time-frame- when revisiting the time-frame horizons of the company, group, or business unit- how well does that reflect on your expectations within the early stage/emerging market(s)?

The second tool you can use in preparing timing horizons and expectations is in creating a product/market matrix by quarter or year which is linked to a detailed project plan- do the numbers you are predicting in sales correspond with the timing in setting up the infrastructure necessary to serve the target customers?

If you are working with a recently acquired company, a distributor, or JV partner -are their timings to reach key milestones realistic? Ask to see their assumptions and cross-check them against your own- and where you identify variation initiate a discussion and process to resolve.

Lastly - ensure your risk and protection plans for the new market are both up-to-date and have involved data from the source (internal and external) and departments within your company or group best able to answer the questions of how to mitigate risk in your new target market both short and long-term. The risk plan is an area in which you need to stress-test the overall project/program to enter the new market. This will be a very valuable tool in setting the time horizons which are realistic for your board and shareholders and the overall performance of the company and new business unit.

3. IN ENTERING A NEW MARKET, FIRST DECIDE "WHERE TO COMPETE", THEN "HOW TO COMPETE"

Sometimes companies fail in their new market entry projects because they don't make visible in their decision making process the differences or distinctions between the new and the "already served" markets and don't ask themselves "what will be the implications of these distinctions for the company and consequently for the market entry project?

The following case is based on a project we recently completed. It shows the importance of understanding the distinctive aspects and dynamics of the new market before implementing a project to enter it.

"LeisureEurope" is a major boat manufacturer that had been developed a leadership position in Europe for different types of recreational boats. In a period when the overall size of the boat market in Europe was quickly shrinking the company believed the best way to position itself was to enter the USA market.

Unfortunately the resources and the investments "LeisureEurope" made for several years to enter the USA market were not providing the results the CEO was looking for. Why did this happen?

> The results of the project showed that "LeisureEurope" was competitive in a segment that, for the new market, has not been even considered initially

The CEO asked Thinking Dimensions to indentify the main causes for the poor results and to support the company in implementation of a plan to properly enter the market.

The poor results were due to the following causes:

1. LeisureEurope started launching products for the USA market without having a clear understanding of the customer needs and of the competition offerings

2. The USA market was different from European markets:

- The size and the complexity of the USA market was much higher
- For the type of products offered by “LeisureEurope”, the concept of “leisure boat” as intended by the final user was very different
- Certain types of recreational boats that practically didn’t exist in Europe, represented an important quota of the total market in the USA
- The criteria adopted by the customers (i.e. the retailers) to select their suppliers of boats were different from the one adopted by the European dealers

In the first 2 months after the first meeting with the CEO, Thinking Dimensions helped “LeisureEurope” answer the following questions:

- Which are the main competitors in the USA market?
- Which distinctive capabilities or product characteristics could “LeisureEurope” offer relatively to the competition?
- Which customer segment were actually willing to pay a premium price for these distinctive capabilities or products?

The results of the first phase of the project were very surprising for the CEO: it showed “LeisureEurope” was competitive in a specific market segment that has not been even considered for the USA.

In the second phase of the project Thinking Dimensions worked with “LeisureEurope” to implement the market entry plan focusing specifically on the market segment that had been identified.

5 months after the first meeting with the CEO the company was already generating a volume of sales (and margins) far above the expectations of the CEO and the management team.

4. FIRST TEST YOUR ASSUMPTIONS, THEN ENTER

Many companies combine “feeling” with the evidence that a “bunch of their competitors are already in the market” and make the fateful decision “we need to go chasing the opportunity, too”! As a second step, they start looking for agents, distributors, or other local parties that can assist in the new market.

We call this an opportunistic approach, meaning that you are making decisions based on gut feeling without really knowing what opportunities and risks are out there in new markets for your company. Maybe it goes well, maybe not.

Our experience shows us that companies that **successfully enter new markets** adopt an **analytical and structured approach** to identify whether there is an opportunity

Our experience shows us that companies that successfully enter new markets adopt an analytical and structured approach to identify whether there is an opportunity in the new market for their specific company and whether the projected result justifies the efforts and the investments to get there.

In order to be able to measure the success of the initiative, for instance**,** you, together with your team, first need to define what would make the new market entry a successful project at least in terms of level of sales, minimum margin, level of investment.

Secondly, you want to understand what type of opportunity (if any) is there in the new market

To be able to understand this you need to answer 3 sets of questions:

Who are our potential **clients**?

- What are the segment of clients present in the market?
- What is their size?
- Where are they geographically located?
- What are their buying criteria? And are those any different from those of the home market?

Who are our **competitors?**

- Who are our competitors for each of the identified segments? (those are usually different)
- What sort of products do they supply the market with and at what price?

How does our **product position** in the new market?

- Can we differentiate from our competitors? And if so, how does the new market perceive us? Is the market willing to pay us a premium?
- Will our products be accepted by the market or would those need to be changed in some way? Is it going to be a big change or a minor one?
- What certifications/labels are necessary to be able of selling products?

Only at this point, going back to the goals that you and your team set at the beginning, will you be able to say whether there is an interesting opportunity for your company in the new market or not.

What we have seen in our experience is through using a systematic process based market approach companies know clearly what to do, where to start from, and where to go to achieve their "share" of the market thus avoiding expensive and risky opportunistic trials.

5. STRATEGIC AND OPERATIONAL DECISIONS ON ENTERING A "FAST GROWING MARKET"

Testing your assumptions is particularly critical for decisions on entering fast growing markets.

Emerging markets are growing faster than the developed economies and can provide lucrative opportunities for many companies.

For example, certain automotive companies are focusing primarily on Brazil, Russia, India and China (BRIC) as they see these nations as

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the most important sources of future business growth. China is frequently considered one of the most interesting countries at the moment, given that the China is already one of the largest vehicle markets in the world and is progressively trending upwards even now.

What are companies looking for in new markets?

Market opportunities, natural resources, talents or tax and investment advantages are all reasons for companies to enter new markets and each of these requires different approaches and different capabilities and competencies. A strategic reason to enter a new market is certainly sales and production capabilities of the firm that can be leveraged in that specific market. One big mistake companies sometimes make is in attempting to enter a new market with their current products and services portfolio convinced they can easily apply the same winning business model used in countries already served. Often this “opportunistic” approach leads to a failure in the new market entry initiative putting and risks placing the parent company in a difficult position to explain to shareholders.

What should we consider when entering a new market?

Average disposable income in emerging and early stage markets is usually lower than in developed countries, however, the number of people that are moving towards a higher budget are rapidly increasing. Even if it is true that a lot of people are out of the target reach in emerging markets, it is also true that an enormous number of people will be requesting standard lifestyle products.

Product offering, approach and business models need to be adjusted to target the right offering for the new “local” consumer. An interesting example is the new Disney park in Shanghai, PRC, which will open in 2015 and with a total investment of USD 3.84 billion- Disney has spent several years studying closely the needs and desires of their target customers and adapted the world renowned Disney brand and formula to best attempt to fit the exacting requirements of the market. Entering a new market means knowing which products, what price, and what distribution channel(s) need to be used. Partnering with local companies (e.g. distributors) can be a good way to enter a new market, develop knowledge, and share new market entry risk.

A company we assisted in entering a new market recently set the first step in place developing a collaboration with a local distributor. In a few months (less than one year) the company was able to identify which formula of competitive advantage was mostly valuable in that market, which sales distribution channels were more appropriate and have a clear understanding on both the local buying criteria and the (different) process.

As a second step, the company moved to a proprietary distribution channel having all the necessary capabilities and competencies available and confidence from the board that the ROI would meet targets.

Emerging and early stage markets are indeed enticing- completing thorough research systematically and setting place the right capability investments together with the best emphasis products and channels will increase the risk of success- something all shareholders want to hear and can trust in.

6. MANAGING RISKS WHEN ENTERING EMERGING AND EARLY STAGE MARKETS

One of the first steps in creating a portfolio strategy for entering emerging and early stage markets is to create strategic assumptions.

The error we see many organizations make is to assume that general level growth (i.e. GDP, disposable income) will naturally translate into demand for the products and services they would like to sell in that particular market. Assumptions about demand are not frequently made visible and even more rarely are they validated with real current data. The error is even further compounded by not making clear the implications of the assumptions- and testing them in the target market.

The risk of error can be reduced by 3 steps:

1) Distilling down to the few critical strategic assumptions which really matter for your business. The growth of GDP is not good enough. The number of housing starts are not good enough. Disposable income is not an acceptable indicator. Push yourself and your team to really find the assumption and the data to validate or invalidate the assumption

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which will lead you to a reasonable implication that you can use to make decisions.

2) Validate and re-validate the data. Buying reports are not the only answer- and certainly cannot be relied on. Put people on the ground in the market, and have them use a structured process together with local support to gather, sort, organize, analyze, and verify information you and your executive team will use to take the most effective actions.

Do not rely only on a local distributor or agency- even if you are considering an exclusive with them in the market- you need hard, objective, third party data.

3) Review on a regular basis and be ruthlessly honest in your reviews. Emerging and early stage markets are experiencing a rate of change at a far higher velocity than what we are used to in business. Be prepared to change and adjust your course based on the new information that becomes available. Do not allow this information to hide from the leadership team, or permit your leadership team to deny intellectually what is going on in the market.

Entering emerging and early stage markets are both exciting and challenging- there can also be a PREMIUM valuation attached to your company or companies if you are good at it. The use of structured processes and systematic tools together with both your current team and local expertise will help you in outperforming your competitors and the market.

This article was edited by Diego Miglioranzi and was authored originally in our Strategic blog (www.blog.thinkingdimensionsglobal.com) by several partners and associates from the Thinking Dimensions Global team including the Thinking Dimensions partners and consultants John Case, Luca Girotto, Tim Lewko, Diego Miglioranzi, Scott Newton, Keith Pelkey, and Laura Rainati.

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