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Winning the \$30 trillion decathlon: Going for gold in emerging markets

By 2025, annual consumption in emerging markets will reach \$30 trillion—the biggest growth opportunity in the history of capitalism. To compete for the prize, companies must master ten key disciplines.

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The Industrial Revolution is widely recognized as one of the most important events in economic history. Yet by many measures, the significance of that transformation pales in comparison with the defining megatrend of our age: the advent of a new consuming class in emerging countries long relegated to the periphery of the global economy.

The two shifts bear comparison. The original Industrial Revolution, hatched in the mid-1700s, took two centuries to gain full force. Britain, the revolution's birthplace, required 150 years to double its economic output per person; in the United States, locus of the revolution's second stage, doubling GDP per capita took more than 50 years. A century later, when China and India industrialized, the two nations doubled their GDP per capita in 12 and 16 years, respectively. Moreover, Britain and the United States began industrialization with populations of about ten million, whereas China and India began their economic takeoffs with populations of roughly one billion. Thus the two leading emerging economies are experiencing roughly ten times the economic acceleration of the Industrial Revolution, on 100 times the scale—resulting in an economic force that is over 1,000 times as big.

CEOs at most large multinational firms say they are well aware that emerging markets hold the key to long-term success. Yet those same executives tell us they are vexed by the complexity of seizing this opportunity. Many acknowledge that despite greater size, larger capital bases, superior product technology, and more sophisticated marketing tools, they are struggling to hold their own against local upstarts. That anxiety is reflected in their companies' performance in emerging markets. In 2010, 100 of the world's largest companies headquartered in developed economies derived just 17 percent of their total revenue from emerging markets—though those markets accounted for 36 percent of global GDP (Exhibit 1) and are likely to contribute more than 70 percent of global GDP growth between now and 2025.

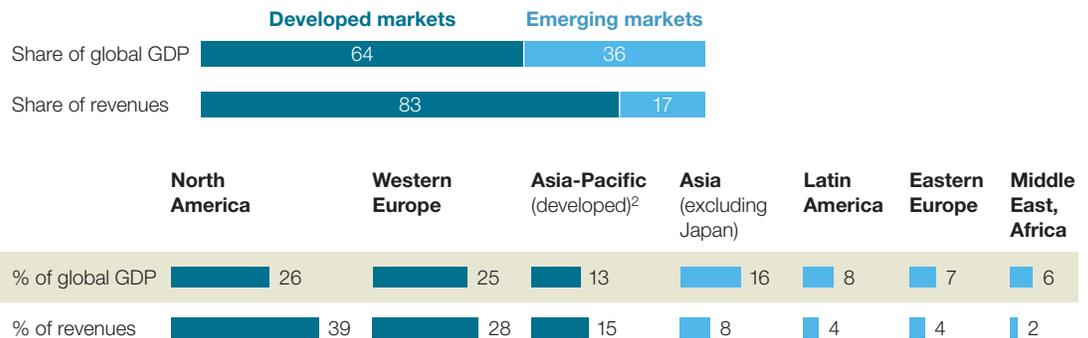
This essay and the compendium of articles it introduces (see *Winning the \$30 trillion decathlon: Going for gold in emerging markets*, on mckinsey.com) describe, for senior executives, the most important priorities in emerging markets. It builds on an extraordinary foundation of research and experience. For more than a decade—starting with the 2001 McKinsey Global Institute (MGI) study of India's economy—McKinsey has put emerging markets at the forefront of its research agenda. Special issues of *McKinsey Quarterly* have focused on Africa, China, India, and Latin America. We have created more than 60 databases and conducted longitudinal studies on the behavior of consumers in Africa, Brazil, China, India, and Indonesia. McKinsey consultants also have been deeply engaged in helping clients address the business implications of the emerging markets' rapid rise.

We wish there were a secret formula or key capability that could easily transform a company's emerging-market efforts. In fact, our experience suggests the challenge in emerging markets more closely resembles a decathlon, where success comes from all-around excellence across multiple sports. Sitting out an event isn't an option; competing

Exhibit 1

Leading companies in the developed world earn just 17% of total revenues from emerging markets, even though these markets represent 36% of global GDP.

Markets' contribution to global GDP vs leading global companies' share of total revenues¹ from given markets, 2010, %



¹For 100 of the world's largest companies headquartered in developed economies; figures for GDP do not sum to 100%, because of rounding.

²Asia-Pacific (developed) includes Australia, Japan, New Zealand, and South Korea.

Source: Company financials; McKinsey analysis

effectively means mastering a variety of different capabilities in a balanced way. As with a decathlon, there's no single path to victory. In emerging markets, companies, like athletes, must learn to make trade-offs, taking into account their own capabilities and those of competitors. They must choose where it makes sense to differentiate themselves through world-class performance and where it is wiser to run with—or, ideally, a little ahead of—the pack. Both the rewards for success and the costs of failure will be large.

The \$30 trillion opportunity

For centuries, less than 1 percent of the world's population enjoyed sufficient income to spend it on anything beyond basic daily needs. As recently as 1990, the number of people earning more than \$10 a day,¹ the level at which households can contemplate discretionary purchases of products such as refrigerators or televisions, was around one billion, out of a total world population of roughly five billion. The vast majority of those consumers were based in developed countries in North America, Western Europe, or Japan.

But over the past two decades, the urbanization of emerging markets—supported by long-term trends such as the integration of peripheral nations into the global economy, the removal of trade barriers, and the spread of market-oriented economic policies—

¹On a purchasing-power-parity basis.

has powered growth in emerging economies and more than doubled the ranks of the consuming class, to 2.4 billion people. By 2025, MGI research suggests, that number will nearly double again, to 4.2 billion consumers out of a global population of 7.9 billion people.² For the first time in world history, the number of people in the consuming class will exceed the number still struggling to meet their most basic needs.

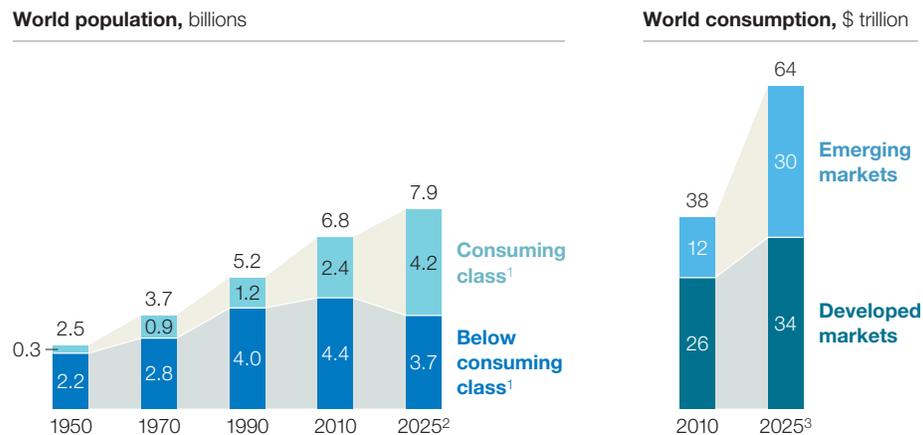
By 2025, MGI estimates, annual consumption in emerging markets will rise to \$30 trillion, up from \$12 trillion in 2010, and account for nearly 50 percent of the world's total, up from 32 percent in 2010 (Exhibit 2).³ As a result, emerging-market consumers will become the dominant force in the global economy. In 15 years' time, almost 60 percent of the

²See *Urban world: Cities and the rise of the consuming class*, McKinsey Global Institute, June 2012, available at mckinsey.com/mgi.

³Our estimate of \$30 trillion reflects private consumption in emerging-market regions in 2025. We define these regions to include Africa, Central Asia, China (with Hong Kong and Taiwan), Eastern Europe, Latin America, the Middle East, and South and Southeast Asia. We estimate emerging-market consumption in 2025 by applying the private-consumption share of GDP per country to our national GDP estimates of 2025, calculated on the basis of consensus GDP growth projections from the Economist Intelligence Unit, Global Insight, Oxford Economics, and McKinsey's long-term growth model. Our approach implicitly assumes that private consumption as a share of GDP will remain constant through 2025. Past evidence from developed economies suggests the share of private consumption in many countries will increase with income, which would lead to a higher projected level of emerging-market consumption in 2025.

Exhibit 2

By 2025, the consuming class will swell to 4.2 billion people. Consumption in emerging markets will account for \$30 trillion—nearly half of the global total.



¹Consuming class: daily disposable income is \geq \$10; below consuming class, $<$ \$10; incomes adjusted for purchasing-power parity.

²Projected.

³Estimate based on 2010 private-consumption share of GDP per country and GDP estimates for 2010 and 2025; assumes private consumption's share of GDP will remain constant.

roughly one billion households with earnings greater than \$20,000 a year⁴ will live in the developing world. In many product categories, such as white goods and electronics, emerging-market consumers will account for the overwhelming majority of global demand. China already has overtaken the United States as the world's largest market for auto sales. Even under the most pessimistic scenarios for global growth, emerging markets are likely to outperform developed economies significantly for decades.

Leading the way is a generation of consumers, in their 20s and early 30s, who are confident their incomes will rise, have high aspirations, and are willing to spend to realize them. These new consumers have come of age in the digital era. Already, more than half of all global Internet users are in emerging markets. Brazilian social-network penetration, as early as 2010, was the second highest in the world. And a recent McKinsey survey of urban African consumers in 15 cities in ten different countries found that almost 60 percent owned Internet-capable phones or smartphones. As e-commerce and mobile-payment systems spread to even the most remote hamlets, emerging consumers are shaping, not just participating in, the digital revolution and leapfrogging developed-market norms, creating new champions like Baidu, mPesa, and Tencent.

The preferences of emerging-market consumers also will drive global innovation in product design, manufacturing, distribution channels, and supply chain management, to name just a few areas. Companies failing to pursue consumers in these new markets will squander crucial opportunities to build positions of strength that, history suggests, could be long lasting. In 17 major product categories in the United States, the market leader in 1925 remained the number-one or number-two player for the rest of the century.⁵

Ten crucial capabilities

For developed-market companies, winning consumers in these new high-growth markets requires a radical change in mind-set, capabilities, and allocation of resources. The value consciousness of emerging-market consumers, the diversity of their preferences, and their sheer numbers mean companies must rethink every aspect of operations, including product portfolios, research and development, marketing, supply chain management, and talent development. They must learn to place big bets on new markets and technologies, invest with speed and at scale, and manage risk and cultural diversity at a whole new level.

Changes of such magnitude must be implemented in a thoughtful, systematic way. With the help of colleagues who, in aggregate, have spent centuries applying their diverse expertise to the challenges of emerging-market competition, we've distilled a set of ten capabilities global corporations need in emerging markets. Just as winning a decathlon requires an athlete to master ten events, we believe winning in emerging markets requires

⁴On a purchasing-power-parity basis.

⁵These companies include Kraft Foods (Nabisco), which led in biscuits; Del Monte Foods, in canned fruit; and Wrigley, in chewing gum.

companies to master these ten capabilities. Like the events in a decathlon, they can be grouped into three types of activities:

- **Throwing accurately.** Companies must aim their emerging-market activities at the right opportunities. That involves surgically targeting urban growth clusters, anticipating moments of explosive growth, and carefully balancing local relevance and global scale. The digitization of the emerging world is generating increasingly rich data sources that can guide such efforts.
- **Jumping in.** As multinationals leap into action in the emerging world, they face the potential for big gains or losses. The next four capabilities reflect these moments of truth: aggressively redeploying resources to seize nascent opportunities, creating product portfolios, crafting brands, and building a go-to-market system that delivers what emerging-market consumers need, where they want it. Success in these markets demands cutting-edge technology and aggressive investment in processes tailored to local conditions.
- **Running the distance.** The final three capabilities underscore the fact that competing effectively in emerging markets is a long-term challenge. Global organizations must rethink structures and management processes to move nimbly in unfamiliar environments while retaining scale advantages. They must fashion new models to attract, retain, and develop scarce emerging-market talent and forge new relationships with stakeholders to build sustainable businesses.

Finally, as in a decathlon, companies must sharpen their skills in all these areas at the same time.

1. Surgically target urban growth clusters.

The scale of the modern exodus from farms to cities has no precedent. In emerging-market economies today, the population of cities grows by 65 million people a year—the equivalent of seven cities the size of Chicago. Over the next 15 years, just 440 emerging-market cities will generate nearly half of global GDP growth and 40 percent of global consumption growth.

Most of those are midsize cities with unfamiliar names, like Ahmedabad, Huambo, Medan, or Viña del Mar. These “middleweights,” as opposed to tier-one megacities, frequently offer the best opportunities. In Brazil, the big metro market is São Paulo state, with a GDP larger than Argentina’s. But competition in São Paulo is brutal and retail margins razor thin. For new entrants to the Brazilian market, there might be better options in the northeast, Brazil’s populous but historically poorest region, where boomtowns like Parauapebas are growing by as much as 20 percent a year.

The notion that smaller cities can offer bigger opportunities isn't new. Fifty years ago, Wal-Mart opened its first store, in Rogers, Arkansas, and proceeded to build one of the world's largest businesses by avoiding highly competitive metropolitan markets. Yet four out of five executives queried in a recent McKinsey survey of major multinational firms said that, in emerging markets, their companies make decisions at the country rather than the city level. Three in five said their companies perceive cities as "an irrelevant unit of strategic planning."⁶

Given the diversity of consumer preferences, purchasing power, and market conditions in emerging societies, this failure to acknowledge the importance of cities in business planning is a fundamental strategic error. China has 56 different ethnic groups, who speak 292 distinct languages; India embraces about 20 official languages, hundreds of dialects, and four major religious traditions; Brazil's citizens are among the world's most ethnically and culturally diverse; the residents of Africa's 53 countries speak an estimated 2,000 different languages and dialects. Even geographically proximate tier-one cities can be radically different. Consider Guangzhou and Shenzhen, two southern Chinese metropolitan centers of comparable size, separated by a distance of just 100 kilometers. In the former, the majority of consumers are locally born Cantonese speakers. In the latter, more than 80 percent are migrants who communicate in Mandarin and, reflecting their disparate regional origins, have far more diverse tastes in consumer electronics, fashion, and food.

Many multinationals nonetheless pursue country-based approaches or hybrid ones that include tweaks for megacities. They assume that efforts to develop local strategies for middleweight cities can come only at the expense of economies of scale. To minimize that trade-off, global companies should group multiple smaller cities into clusters with common demographics, income distributions, cultural characteristics, media regions, and transportation links (Exhibit 3). By running operations through a common management hub and pursuing a strategy of gradual, cluster-by-cluster expansion, companies can gain scale efficiencies in all aspects of their operations, including marketing, logistics, supply chain management, and distribution. For all but a handful of high-end product and service categories, the emphasis should be on "going deep" before "going wide."

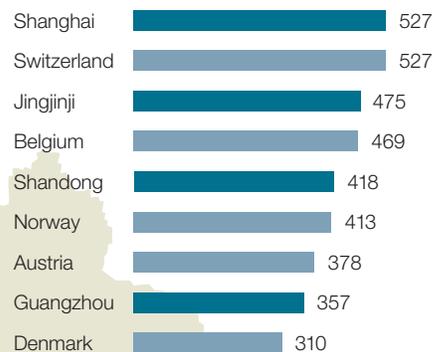
In our experience, cluster-based strategies are far more effective than attempts to achieve blanket coverage of an entire country or region or to chase growth in scattered individual cities. The results of switching to a cluster focus can be dramatic: in India, one leading consumer goods company recently cut costs in half by concentrating on eight large urban clusters rather than attempting to plot strategy for 200 different cities.

⁶See *Urban world: Cities and the rise of the consuming class*, McKinsey Global Institute, June 2012, available at mckinsey.com/mgi.

Exhibit 3

A clustering approach can help companies target consumers more effectively in Chinese cities, some of which are economically larger than entire European countries.

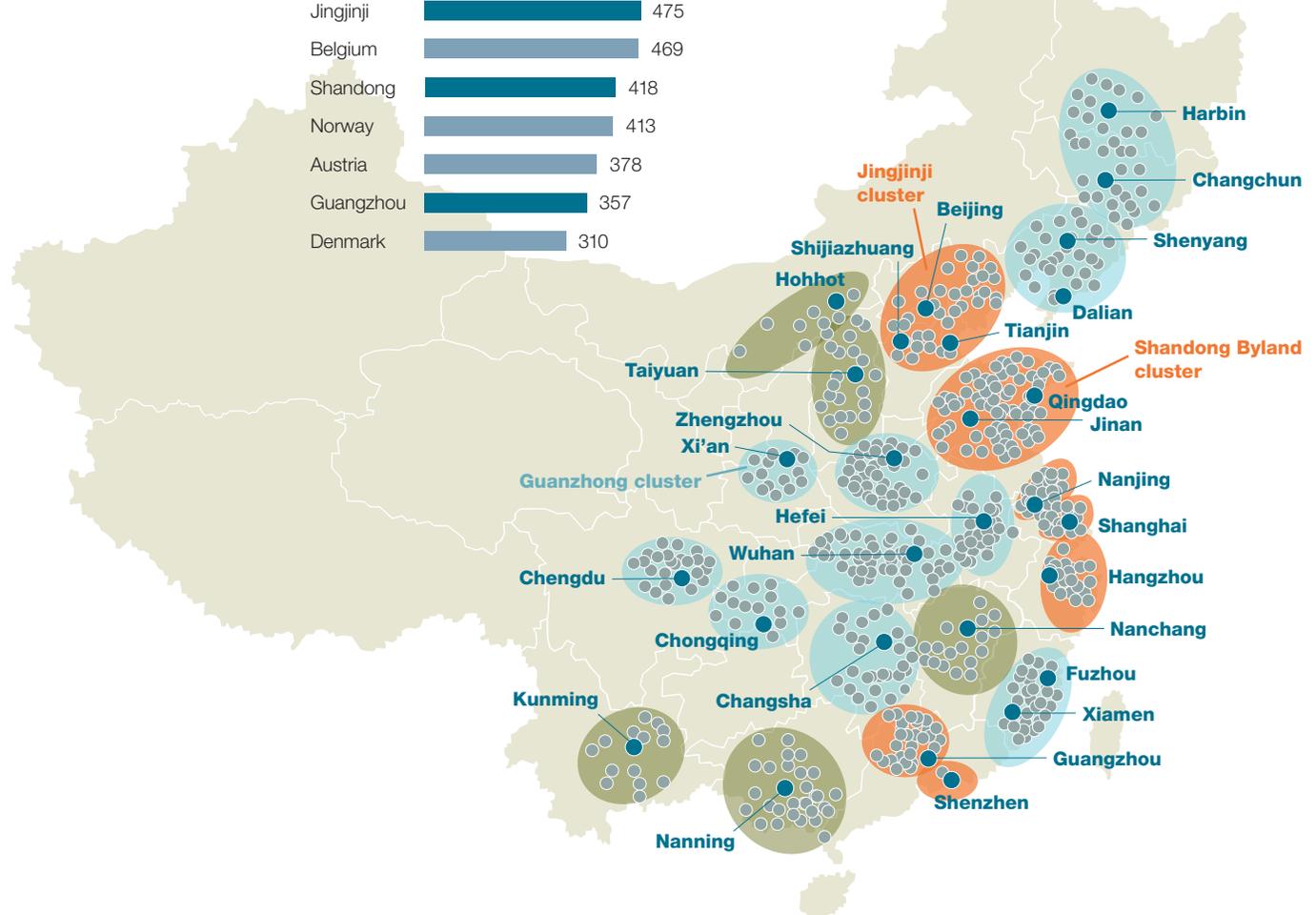
2010 GDP for urban clusters in China vs selected countries, \$ billion



Urban clusters in China and their hub cities

Clusters are grouped by size, based on average 2015 urban GDP estimates

● Small ● Large ● Mega



2. Anticipate moments of explosive growth.

In emerging markets, timing matters as much as geography in choosing where to compete. Demand for a particular product or category of products typically follows an S-curve rather than a straight line: there is a “warm-up zone” as growth gathers steam and consumer incomes begin to rise, a “hot zone” where consumers have enough money to buy a product, and a “chill-out zone” in which demand eases (Exhibit 4).

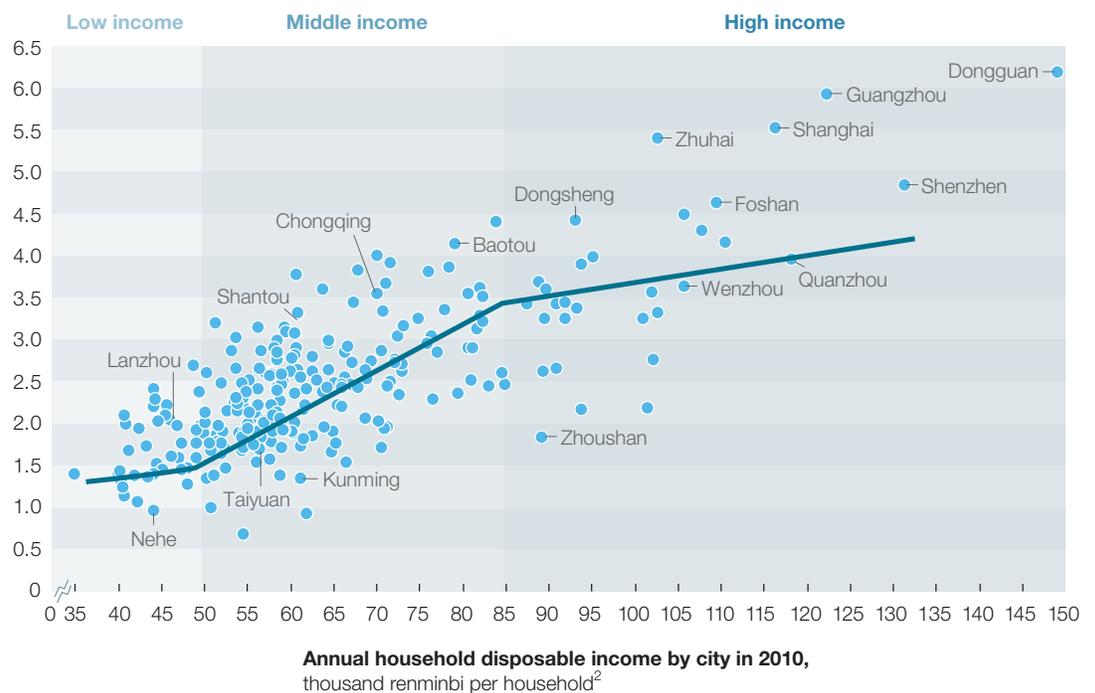
In plotting consumption S-curves, per capita income is the critical variable. But the takeoff point and shape of consumption curves will vary by product or service. Purchases of products with low unit costs, such as snacks and bottled drinks, accelerate at a relatively early stage of the income curve, beauty products somewhat later, and luxury products, such as fashion and fine wines, later still. Services tend to take off at higher income levels. Refrigerators tend to have a steep adoption curve that flattens out once a market reaches saturation, while spending on clothing, a necessity, displays a more sustained growth pattern. The adoption patterns of products within the same general category can vary widely.

While refrigerators and washing machines are often lumped together as white goods, consumption data show that in Beijing, purchases of the former start to take off at annual incomes of \$2,500 a year and slow above \$6,000, while the take-up for the latter doesn't begin until incomes approach \$10,000 a year.

Exhibit 4

In China, consumption of household products takes off at middle-income levels, following an S-curve.

Annual consumption of household products¹ by city in 2010,
thousand renminbi per household²



¹Includes white goods, furniture, and home accessories.

²In 2010 real renminbi; 6.77 renminbi = \$1 in 2010.

Source: National Bureau of Statistics of China; McKinsey analysis

Predicting when and where consumers will move into the hot zone also requires a granular understanding of technological, demographic, cultural, geographic, and regulatory trends, as well as a thorough knowledge of local distribution networks. Because many of India's households are vegetarian, for example, meat consumption in that country is much lower than the global average. In Nigeria, where more than one-third of the population is 14 years of age or younger, sales of baby food are far above the global average at similar income levels.

3. Devise segmentation strategies for local relevance and global scale.

Identifying high-growth hot spots and anticipating when consumers there will be ready to buy isn't enough. Multinationals also must determine how to refine their product or service offerings so that they will appeal to (or even shape) local tastes, be affordable, and give the company an opportunity to achieve reasonable scale in a timely way.

Deciding how and how much to cater to local preferences requires a deep understanding of consumer demographics, preferences, and behavior within target segments. In some segments—for instance, many kinds of breakfast cereal in China and India—companies may find that their core offerings aren't even relevant. In others, they will discover opportunities to realize economies of scale by leveraging products across markets.

Too often, multinationals attempt to make sense of the diversity of emerging-market consumers by ordering them in polar caricatures: at one extreme, the “nouveau riche,” eager to flaunt their wealth and emulate the West; at the other, the “penny-pinching” poor at the “bottom of the pyramid,” for whom the overriding purchase criterion is getting the lowest price. Marketers who succumb to this false dichotomy are drawn into debating flawed strategic alternatives. Should they pursue a niche strategy, targeting rich customers with essentially the same products they sell to developed-market consumers? Or should they go for the mass market by offering cheap products that would never sell back home?

With the number of mainstream consumers on the rise in emerging markets—more than half of all Chinese urban households, for example, will be solidly middle class by 2020, up from 6 percent in 2010—companies are learning to craft more nuanced product strategies that balance scale and local relevance.⁷

A careful segmentation strategy helped Frito-Lay capture more than 40 percent of the Indian branded-snacks market. The company tailored global products, such as Lays and Cheetos, to local tastes. Frito-Lay also created Kurkure, a cross between traditional Indian-style street food and Western-style potato chips that represented a new category in India and is now being sold in other countries. Critical to Kurkure's success: attractive

⁷We define mainstream consumers in China as members of relatively well-to-do households with annual disposable income of \$16,000 to \$34,000. For more on China's mainstream consumers, see Yuval Atsmon and Max Magni, “Meet the Chinese consumer of 2020,” *mckinseyquarterly.com*, March 2012.

pricing and combining local feel with scalable international packaging. In China, Audi introduced A6 models with a longer wheelbase for extra legroom, while adding backseat entertainment systems and extendable tray tables.

Leading companies also look for opportunities to scale ideas across emerging markets. Unilever, for example, has begun marketing its Pureit water filter, first launched in India in 2005, to consumers in Asia, Eastern Europe, and South Africa. Telecommunications providers operating in emerging markets have learned to replicate successful marketing programs across multiple geographies.

4. Radically redeploy resources for the long term.

To win in emerging markets, developed-market companies must be willing to embrace big changes fast; those unable to reallocate resources radically risk a drubbing by local competitors. Our research shows that emerging-market companies redeploy investment across business units at much higher rates than companies domiciled in developed markets. Emerging-market firms are growing faster than their developed-market counterparts, even when both operate in neutral third markets where neither is based. The emerging players' growth advantage persists even after controlling for the smaller base from which they start, and it also exists in developed markets (Exhibit 5).

Exhibit 5

Across the board, emerging-market companies grow faster than those from developed economies.

Revenue growth rates segmented by geographic market,¹
compound annual growth rate, %

	Overall growth	Growth in home market	Growth in developed markets (for developed, other than home)	Growth in emerging markets (for emerging, other than home)
By location of company headquarters				
Emerging-market companies	23.9	17.9	22.4	30.7
Developed-market companies	10.7	7.5	11.7	12.6
Difference = growth-rate advantage for emerging-market companies	13.2	10.4	10.7	18.1

¹Based on growth-decomposition analysis of 2,229 market segments for 720 companies, spanning a number of time frames from 1999 to 2008.

In part, the agility of emerging-market companies reflects the fact that majority shareholders tend to have more power in them than in their developed-market counterparts. But it also reflects different management mind-sets. Emerging-market companies are built for speed. They are designed to serve the rapidly changing needs of middle-class consumers in their home markets and other emerging societies. They know that they must innovate or die. It helps too that these upstarts aren't burdened by legacy issues; they can focus on what works in emerging markets without having to straddle both the rich and developing worlds. By contrast, CEOs at many developed-market companies, who live in fear that even a fleeting dip in domestic earnings, market shares, or stock prices could put their jobs at risk, must protect their flank at home as they are pursuing emerging markets that carry significant near-term risks.

Yet there's no escaping the importance in emerging markets of making big bets and riding them for the long term. The investment profile of global consumer products giants that have established a successful presence in emerging markets indicates an interval of approximately four or five years until investments pay off. M&A can accelerate progress. Consider Danone's purchase in Russia of Unimilk, which allowed the French food giant to offer more competitive products at a wider variety of prices. Similarly, Diageo's acquisition of a majority stake in China's Shuijing-fang boosted the British beverage company's distribution reach and ability to supply Chinese consumers with the white liquor that is so popular there.

5. Innovate to deliver value across the price spectrum.

Emerging markets offer greenfield opportunities to design and build products and services with innovative twists on best-in-class equivalents in established markets. South Korea's LG Electronics, for instance, struggled in India until the 1990s, when a change in foreign-investment rules enabled the company to invest in local design and manufacturing facilities. Local developers, recognizing that many Indians used their TVs to listen to music, urged LG to introduce new models with better speakers. To keep prices competitive, the company swapped expensive flat-panel displays for less costly conventional cathode tubes.

Today, LG markets many other original products in India, including appliances with programming menus in local languages, refrigerators with brighter colors and smaller freezers, large washing machines for India's big families, and microwaves with one-touch "Indian menu" functions. LG's product innovation center in Bangalore is its largest outside South Korea, and the company is India's market leader in air conditioners, refrigerators, TVs, and washing machines. Other global firms are following LG's lead, in India and elsewhere; over the past 12 years, the number of multinational firms with major research centers in China has risen to nearly 1,000, from less than 20.

Local players too are proving nimble innovators. For rural customers, China's Haier makes extra-durable washing machines that can wash vegetables as well as clothes, and refrigerators with protective metal plates and bite-proof wiring to ward off mice. The company is no less ingenious in developing products for urban users, such as smaller washing machines and refrigerators designed for tiny, cramped apartments. Dabur, an Indian consumer health company, is combining Western science with Indian Ayurvedic medicine to offer innovative consumer health products in India and Africa. Meanwhile Tanishq, part of the Tata Group, has built a fast-growing jewelry business with heavily localized design and payment options that cater to the needs of different Indian communities and regions.

Whether a company sells basic products or services to challenge low-cost local players or seeks to entice consumers to adopt new products and services comparable to global offerings, competing effectively often requires innovating and localizing, while redesigning product lines, service operations, and supply chains.

6. Build brands that resonate and inspire trust.

The outlook of consumers in emerging markets differs from those in developed ones in many ways. On average, emerging consumers are younger—with 63 percent aged 35 or under in 2010, versus 43 percent in developed countries—and more optimistic than their more affluent counterparts. And unlike developed-market consumers, whose purchases are informed by a lifetime of exposure to products and brands, emerging consumers are novice shoppers for whom buying a car, a television, or even a box of diapers may be a first-time experience. Emerging consumers wrestle with these new choices in a cluttered marketing environment and highly fragmented retail landscape offering little consistency in how products are presented or promoted. As emerging consumers move from rural villages to cities, they embrace new ideas and ways of living, placing in flux not just their buying preferences but also their very identities. They are highly receptive to effective branding efforts, but also far more likely than developed-market consumers to dump one brand for the next new thing.

These characteristics have significant implications for brand and marketing strategies. In emerging markets, it is critical for products to be included in the initial consideration sets of consumers—the short list of brands they might purchase. Our research indicates that Chinese consumers, for example, consider an average of three brands and end up purchasing one of them about 60 percent of the time. In the United States and Europe, by contrast, consumers consider at least four brands and end up selecting one from their initial consideration sets only 30 to 40 percent of the time.

The intensity of emerging consumers' focus on the initial consideration set favors brands with high visibility and an aura of trust. Multinationals can build visibility with a cluster-by-cluster strategy that achieves top-of-mind recognition in a handful of selected cities

before moving to the next batch. Locally focused campaigns have the added advantage of accelerating network effects and making it easier for firms to generate positive word of mouth—a critical prerequisite for emerging-market success. McKinsey surveys find that positive product recommendations from friends or family are twice as important for consumers in China and nearly three times as important for consumers in Egypt as for those in the United States or Britain.

Building trust also requires careful scrutiny of brand messages and delivery. Acer, the Taiwanese computer maker, tested messages emphasizing simplicity with Chinese customers. This theme had resonated with consumers in Taiwan and other affluent markets, but the company discovered that it risked causing mainland buyers to question the quality of Acer products. A new campaign emphasizing reliability proved highly effective.

Mobile and digital channels, including e-commerce, offer additional opportunities to build trust and brand awareness and to engage with customers. In China, more than half the urban population is online, and surveys indicate Chinese consumers are more likely to trust online recommendations than television advertisements. By 2010, a quarter of Brazilians using the Internet had opened Twitter accounts, making Brazilians the world's most enthusiastic tweeters. In India, consumers are leapfrogging traditional media and the PC to embrace mobile devices, while low literacy rates spur the development of voice-activated Web sites and services. Of course, digital-marketing efforts must be part of integrated campaigns across a range of channels, including, for reasons we examine below, in-store promotions and educational campaigns.

7. Control the route to market.

Our research underscores the importance in emerging markets of managing how consumers encounter products at the point of sale. In China, 45 percent of consumers make purchasing decisions inside shops, compared with just 24 percent in the United States. Almost a quarter of the Chinese consumers we surveyed said in-store promoters or salespeople greatly influence their decisions. In one study, we found that Chinese who purchased high-end consumer electronics items visited stores up to ten times before deciding what to buy.

Managing the consumer's in-store experience is an enormous challenge, especially in middleweight cities where the biggest growth opportunities lie. Part of the problem is the fragmented nature of the retail landscape in emerging markets; e-commerce penetration currently lags behind Western levels, supermarkets remain a relative novelty, and consumers still make most purchases from ubiquitous mom-and-pop shops. In China, the 50 largest retailers have only a tenth of the market share of the 50 largest US retailers.

Reaching these small outlets often means negotiating bad roads and a byzantine, multitiered network of distributors and wholesalers. In these locations, local champions

have clear advantages, including long-standing alliances with distributors and armies of low-paid salesmen. Multinationals—many of which now struggle just to get products into emerging-market stores—should be prepared to build a much larger in-house sales operation in these countries. They should also devote far more time and energy than they do in their home markets to categorizing and segmenting sales outlets and to devising precise routines and checklists for monitoring the quality of the in-store experience.

In India, Unilever distributes directly to more than 1.5 million stores by deploying thousands of people for sales and in-store merchandising, many equipped with handheld devices to book replenishment orders anywhere, anytime. For priority outlets, it is often essential to deploy a heavy-control model, using supervisors, “mystery shoppers,” and sophisticated IT support to maximize margins while ensuring enough visibility to assess the performance of stores.

Coca-Cola, long active throughout the developing world, goes to great lengths in those markets to analyze the range of retail outlets, identify the highest-priority stores, and understand differences in service requirements by outlet type. For each category of outlet, Coca-Cola generates a “picture of success”—a detailed description of what the outlet should look like and how Coke products should be placed, displayed, promoted, and priced. The company employs a direct-sales delivery model to serve high-priority outlets, while relying on distributors and wholesalers when direct delivery isn’t cost effective. It scrutinizes everything from service levels and delivery frequencies to the positioning of coolers.

In China, Coca-Cola sells directly to over 40 percent of its two million retail outlets and monitors execution in an additional 20 to 30 percent through regular visits by Coca-Cola salesmen and merchandisers. In Africa, where infrastructure is less developed, Coca-Cola has built a network of 3,200 “microdistributors” by recruiting thousands of small entrepreneurs who use pushcarts and bicycles to deliver Coke products to hard-to-reach outlets. There’s no substitute in emerging markets for this sort of hands-on approach to managing distributors and key accounts.

8. Organize today for the markets of tomorrow.

In a series of surveys and structured interviews with more than 300 executives at 17 of the world’s leading multinationals, chosen from a range of sectors and geographies, we learned that local companies struggle with a host of problems. Strategy planning, risk management, talent development, and operating efficiency frequently disappoint global leaders. In related research, we also found that high-performing companies often suffered from a “globalization penalty”: they consistently scored lower than more locally focused ones on key dimensions of organizational health.⁸

⁸See Martin Dewhurst, Jonathan Harris, and Suzanne Heywood, “Understanding your ‘globalization penalty,’” mckinseyquarterly.com, July 2011.

In theory, global players should enjoy substantial advantages over local rivals in emerging markets, including shared infrastructure and the protection that a more geographically diverse business portfolio offers against country and currency risks. In practice, however, we found that as global companies grow bigger and more diverse, the costs of coping with complexity rise sharply. Less than 40 percent of the executives at the firms we surveyed said they were better than local competitors at understanding the operating environment and customers' needs. Furthermore, the need to adhere to globally standard policies and risk-management practices sometimes hinders managers of global companies in emerging markets from moving quickly to lock in early opportunities.

Large multinationals can reduce their globalization penalty by rethinking organizational structures and processes. IBM, for instance, radically revamped its functions in Asia, moving human resources to Manila, accounts receivable to Shanghai, accounting to Kuala Lumpur, procurement to Shenzhen, and customer service to Brisbane. Other global firms have moved core activities closer to priority markets. ABB shifted the global base of its robotics business from Detroit to Shanghai. Dell created regionwide functional centers in Singapore.

Underpinning these moves are some important principles. For example, we've found that multinationals can boost their effectiveness by focusing on a few key management processes for which global consistency is advantageous, while allowing variability and local tailoring in others. It may be useful to group high-growth countries together (even when not geographically proximate) to help top management assess their needs. Clarifying the role of the corporate center is critical; too often headquarters assumes functions that add complexity but little value. New communication technologies can help, but management must ensure that they do not ensnare employees in an ever-expanding web of teleconferences in disorienting time slots, with hazy agendas and ill-defined decision rights. The farther flung the organization, the greater the virtue of simplicity.

9. Turbocharge the drive for emerging-market talent.

Unskilled workers may be plentiful in emerging societies, but skilled managers are scarce and hard to retain. In China, barely two million local managers have the managerial and English-language capabilities multinationals need. A recent McKinsey survey found that senior managers working for the China divisions of multinational firms switch companies at a rate of 30 to 40 percent a year—five times the global average. Increasingly, local stars prefer working for local employers that can offer them more senior roles. In 2006, the top-ten ideal employers in China included only two locals—China Mobile and Bank of China—among the well-known global names. By 2010, seven of the top ten were Chinese firms.

Barely half of the executives at the 17 global companies we studied thought their organizations effectively tailored recruiting, training, and development processes across geographies. In a recent survey of leading global companies, we found that just 2 percent of

their top 200 employees hailed from key Asian emerging markets. Some global companies have tried to address their emerging-market talent problem by throwing money at it; one leading bank reports paying senior staff in Brazil, China, and India almost double what it does in the United Kingdom.

But beefing up salaries is, at best, a partial solution. In emerging markets, global firms must develop clear talent value propositions—an employer brand, if you will—to differentiate themselves from local competitors. In South Korea, L'Oréal established itself as the top choice for female sales and marketing talent by creating greater opportunities for brand managers, improving working hours, expanding the child care infrastructure, and adopting a more open communications style. Other Western firms, such as Motorola and Nestlé, have burnished their employer brands by building relationships with employees' families.

Deepening ties between key corporate functions and emerging markets can create opportunities for local talent while enhancing organizational effectiveness. Western firms, including Cisco, HSBC, and Schneider Electric, have benefited from strengthening links between headquarters and high-growth regions and offering emerging-market managers global career paths and mobility programs. Similarly, in 2010, about 200 managers from Unilever's Indian subsidiary were assigned global roles with the parent company; indeed, two former senior executives in the company's Indian operations now are members of the global parent company's core leadership team. At Yum Brands, the India head reports directly to the global CEO.

Given the leadership requirements of emerging markets, global companies need bold talent-development targets. We think many players should aspire to multiply the number of leaders in emerging markets tenfold—and to do that in one-tenth of the time they would take back home. The strategies of emerging-market players merit careful study. In India, Reliance Group, the largest private employer, addressed a leadership gap—a need for as many as 200 new functional leaders to support growth initiatives—by recruiting a new wave of 28- to 34-year-old managers and enlisting help from local business schools and management experts to design new development programs.

10. Lock in the support of key stakeholders.

No matter where successful businesses operate, they need the support of key stakeholders in government, civil society, and the local media (increasingly shaped by online commentators). Managing these relationships effectively can have a huge impact on a company's market access, ability to engage in merger or acquisition activity, and broader reputation. We believe global companies must devote far more time and effort to building such support in emerging markets than they would in developed ones. Such efforts should include cultivating relationships with local business allies—customers, joint-venture partners, investors, and suppliers.

Such recommendations may sound like common sense, yet it is surprising how few multinationals take them seriously. Companies must set and monitor rigorous performance targets to measure their commitment to relationship building in emerging markets. Senior executives should make a systematic effort to identify key regulators, community leaders, and business partners and to understand their needs. They should attend meetings and events in which key stakeholders participate, and seek inclusion in government advisory bodies. They must also ensure that public-affairs and external-relations teams in emerging markets are as well staffed as operations back home.

Amway's success in China illustrates the benefits of effective stakeholder management. In the early 2000s, the US-based direct-sales giant was almost declared an illegal business in China for violating a 1998 ban on direct selling. Amway's senior executives made numerous visits to Beijing to get to know senior leaders and explain the company's business model. The company also demonstrated its commitment to China by opening stores countrywide, while investing more than \$200 million in China-based manufacturing and R&D centers. In 2006, the Chinese government reshaped the regulation of direct sales. Today Amway is China's second-largest consumer product business.

Finally, don't neglect financial stakeholders. Domestic shareholders must be persuaded that the pursuit of long-term growth in emerging markets is worth short-term reductions in returns on capital and won't necessarily weaken performance in core markets. Furthermore, as emerging markets contribute a greater proportion of the global savings pool, investors there could offer a crucial new source of funding.

Over the last 100 years, the title of "world's greatest athlete" has been given to the winner of the Olympic decathlon. This has been true since the Stockholm Olympics, in 1912, when King Gustav V of Sweden used those words to describe Jim Thorpe, winner of the newly reintroduced decathlon competition. The rise of the emerging world's new consumer class is the greatest competition of our age for businesses—one no truly global company can ignore. For all the complexity of emerging markets, they offer multinationals and their shareholders the best hope for future prosperity. Consumers in those markets hold the key to a \$30 trillion prize that lies just over the horizon. During the next 100 years, the title of "world's greatest companies" will surely be given to those that win in emerging markets. Business leaders and their boards need to ask themselves whether they are making the changes required to win or risk being overtaken by competitors with bolder ambitions. ○

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