

From oxcart to Wal-Mart:

Four keys to reaching emerging-market consumers

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To get products to customers in emerging markets, global manufacturers need strategies for navigating both the traditional and the modern retail landscapes.

In emerging markets the world over, multinationals struggling to get their products to consumers confront a bewildering kaleidoscope of strategic and operational challenges. At one extreme, they must grapple with traditional retailers: the chaotic array of shops, kiosks, street vendors, and other small proprietors who seem to offer neighborhood customers a little of everything, whether it be groceries or branded goods, such as beverages, small electronic devices, and personal-care products. At the other, multinationals must deal with modern retailers—global giants, including Carrefour, Tesco, and Wal-Mart, as well as local leaders, such as CR Vanguard, in China, or Grupo Pão de Açúcar, in Brazil—that have become a powerful force in the emerging world’s fast-growing cities.

This duality has become more pronounced since we last wrote about reaching consumers in emerging markets, five years ago; our emphasis then was largely on the ubiquitous mom-and-pop shop.¹ Today, retail landscapes in emerging markets can be divided into three broad categories (see exhibit, which focuses on grocery sales):

¹See Alejandro Diaz, Jorge A. Lacayo, and Luis Salcedo, “Selling to ‘mom-and-pop’ stores in emerging markets,” mckinseyquarterly.com, March 2007.

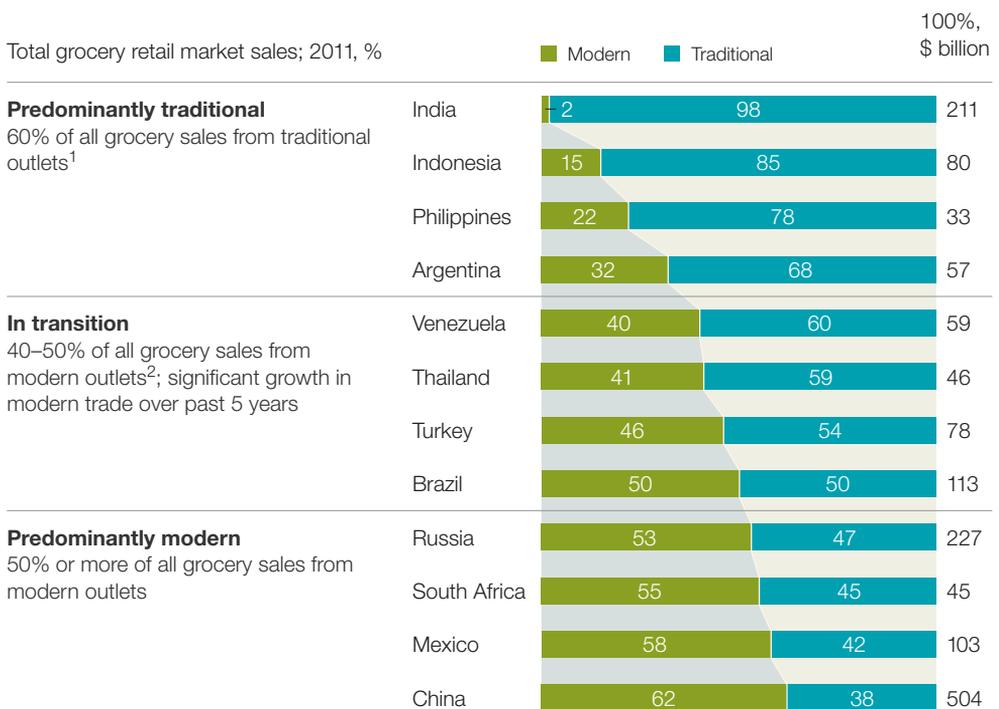
- *predominantly traditional* markets, such as India, Nigeria, and Indonesia, where small proprietors account for 98 percent, 97 percent, and 85 percent of the market, respectively²
- *predominantly modern* markets, such as China, Mexico, and South Africa, where modern trade already accounts for more than half of sales
- *transitional* markets, where small proprietors currently prevail but are being rapidly elbowed aside by modern retailers; in Turkey, for example, their share of sales has shot up to 46 percent in 2011, from 26 percent in 2005

As multinational manufacturers look beyond countries as their unit of strategic planning, they will discover stark variations within regions,

²All market share figures are the latest available (typically, 2011) estimates from reports produced by Euromonitor and Planet Retail.

Exhibit

Emerging markets present a mix of retailing on a range from predominantly traditional to predominantly modern trade.



¹Includes cooperatives, independent grocers, free markets, and food specialists.

²Includes hypermarkets, supermarkets, discounters, department stores, and convenience stores.

cities, and neighborhoods. (For more on city-based strategy setting, see “Unlocking the potential of emerging-market cities,” on mckinseyquarterly.com.) In Malad, a western suburb of Mumbai, the most important outlets for grocery sales are mom-and-pop stores, known as *kirana*, and the suburb’s giant fruit and vegetable *mandi*, or outdoor market. But as business-processing centers and new residences spring up in the district, modern retailers are muscling in. Malad now boasts ten supermarkets and three large hypermarkets.

Even in predominantly modern retailing markets, such as China, where modern outlets account for nearly two-thirds of sales nationwide, traditional and modern stores live cheek by jowl. China’s ten largest grocery retailers, though growing fast, account for only 11 percent of total sales—far less than the ten largest US players, which account for 51 percent of sales in that market. China’s biggest retailer, China Resources Enterprise, commands a market share of 2.3 percent of total grocery retailing and 3.8 percent of modern grocery retailing. In a host of leading Chinese cities—among them Chengdu, Chongqing, Dailian, Shenyang, and Wuhan—modern retail outlets account for only about 50 percent of sales. By contrast, modern retailing represents more than 75 percent of sales in Beijing and Guangzhou, 80 percent in Shenzhen, and 77 percent in Shanghai, where residents can choose to buy their groceries at more than 100 hypermarkets.

Across the emerging world, in short, the retail terrain is diverse and unfamiliar. This article offers four road rules for companies to follow as they navigate it.

1. Embrace the duality of emerging markets

The starting point for any successful strategy is a recognition that manufacturers must engage effectively with traditional *and* modern trade outlets—and be prepared to live with that reality for the foreseeable future. In some emerging markets, notably India, regulations against big-box competitors explicitly protect small proprietors. Cultural preferences, poor infrastructure, and the geographic dispersal of emerging-market populations also assure a significant role for traditional outlets.

In our experience, companies that craft nuanced strategies embracing the traditional retailer can raise their revenues from emerging markets by 5 to 15 percent and their profits by as much as 10 to 20 percent. That's because for all the appeal that large-format retailers hold for global manufacturers—big chains are familiar, easy to deal with, and can free manufacturers to focus on issues like strategy, product development, or recruiting—these retailers can command high listing fees and big discounts, as well as impose many conditions small proprietors cannot. They also are quick to weed out products that don't sell briskly.

Some manufacturers have opted to focus on large retail chains to build a position of strength and then gradually developed the capacity to work with traditional outlets. Prantalay Marketing, a Thai seafood processor, increased sales of its ready-to-eat meals, launched in 2004, to more than \$30 million within six years, in part by concentrating on Thailand's large retail chains, including Siam Makro, Big C, and Tesco Lotus. The focus on modern retailing made sense because Prantalay's prepared meals were frozen and required a reliable cold chain. Now the company is turning its attention to traditional channels and expanding its product lineup to include offerings, such as instant noodles, that do not require freezing.

Similarly, South Africa's Tiger Brands worked through large retailers to consolidate its position in its home market. A consumer product giant whose brand portfolio includes everything from Purity baby food to Doom insecticide, Tiger accounts for close to 15 percent of sales at every major South African retailer. But as the company looks for future growth, it has begun acquiring businesses in other African markets. Given the greater importance of small proprietors in those economies, Tiger's emergence as a regional player will force it to develop new capabilities for working through traditional retailers.

Other manufacturers have moved in the opposite direction, securing market position through traditional retail outlets, then turning to larger establishments in the quest to expand. Consider the case of Wanglaoji, a 184-year-old herbal tea transformed by JDB Group, a Hong Kong soft drink marketer, into China's best-selling beverage. Until 1995, when JDB acquired the rights to the Wanglaoji trademark from state-owned Guangzhou Pharmaceutical,³ the drink was primarily seen as an herbal elixir for cooling "overheated" internal organs.

³Zhang Zhao, "Arbitration ends long tempest in a tea can," *China Daily*, May 23, 2012.

JDB launched a rebranding effort whose masterstroke was a decision to market the drink through restaurants specializing in spicy Sichuanese cuisine. JDB pitched Wanglaoji as a healthy and refreshing antidote to Sichuan’s famously fiery hot-pot dishes, forged partnerships with select restaurants, and gave “Wanglaoji-trusted outlets” lavish incentives, including product discounts, free promotional materials, and generous contributions to holiday marketing campaigns. The results of the repositioning were dramatic: between 2002 and 2008, sales soared from less than \$30 million to more than \$1.5 billion.⁴ With consumers clamoring for the drink in shops as well as restaurants, JDB found modern retailers eager to carry its red cans. Today, the brand boasts sales of roughly \$3 billion in China, topping sales of that other popular red-can beverage, Coke.⁵ It is widely available in a variety of hypermarkets, minimarts, and convenience stores, as well as in hot-pot restaurants.

2. Segment and conquer

Because multinationals can’t be everywhere at once, it is essential for manufacturers to pick their shots by segmenting and prioritizing sales outlets carefully. Sophisticated segmentation strategies are especially crucial in targeting traditional trade channels, for a single country may have millions of outlets. (China, for example, has anywhere from 3 million to 8 million sales outlets, depending on what kind are counted, while India has 8 million to 15 million.) In mapping routes to market in emerging economies, we urge manufacturers to focus on a geographic region or cluster of cities and to achieve complete coverage at outlets with significant potential before going on to the next market. (For more on the advantages of creating a stronghold in one area before moving to the next, see “Building brands in emerging markets,” on mckinseyquarterly.com.)

To navigate these markets effectively, manufacturers should look beyond the current sales of priority outlets. Sales data for traditional stores in emerging markets are notoriously unreliable; even when accurate, they often reflect little more than how much effort the

⁴Huang Daohen, “Lost rights—Wanglaoji’s case spells war for the herbal tea market,” *Beijing Today*, May 25, 2012.

⁵Whether the Wanglaoji brand can sustain the past decade’s rapid growth is uncertain. A series of recent court rulings invalidated an effort by JDB to extend its rights to use the Wanglaoji trademark to 2020. A 2001 agreement that, according to JDB, provided for this was thrown out by mainland courts after a 2005 investigation discovered that the chairman of JDB’s parent company secured the signature of Guangzhou Pharmaceutical’s vice chairman on this deal by paying him a \$600,000 bribe.

manufacturer has expended to date in supporting the store in question. It's far better to estimate potential sales by using forward-looking parameters, such as store size, proximity to workplaces or schools, traffic volumes, neighborhood wealth, or shelf space.

One leading global food company used census and publicly available transportation data to classify sales outlets in the Middle East according to outlet size (six segments, ranging from more than 130 square meters to 30 square meters or less) and a mix between traffic volumes (high, medium, and low) and incomes of surrounding households (high, medium, and low). The result was a grid with 36 cells, which were then aggregated into six distinct segments, enabling managers to make strategic choices about which outlets merited greater investment and which should get only basic maintenance.

The next step is to specify precisely the combination of service, support, and incentives each outlet segment merits. Coca-Cola refers to this process as defining the “picture of success.” What should a store look like? How should Coca-Cola products be displayed, stored, priced, and promoted? Big stores in rich, high-traffic areas will get more attention than small shops in poor, low-traffic areas—but there are numerous variations in between. For each segment, managers tailor a specific set of value propositions. Should the company supply coolers and, if so, how many? What kind of signage and other promotional materials should it provide? Which Coca-Cola products should be supplied and in how many variations of packaging? How frequently should sales staff visit? (See illustration on page 7.)

In emerging markets, manufacturers must go to great lengths to craft a combination of retailer incentives ensuring that the picture of success comes out right. Big chains, of course, care most about discounts and fatter profit margins, together with better merchandising, more expensive displays, more frequent deliveries, and more frequent visits by salespeople. Some traditional retailers may value these things too. Smaller retailers, however, may prefer free equipment, brand promotions, flashier displays, and outside signage to help them stand out from the crowd. In many cases, manufacturers can win the loyalty of small proprietors by paying electricity bills or providing health insurance for the owner, employees, and members of their families. In some cities in Mexico and India, where shopkeepers take special pride in their establishments' appearance, offering to pay for a new paint job every six months may be the lowest-cost way to secure a partnership.

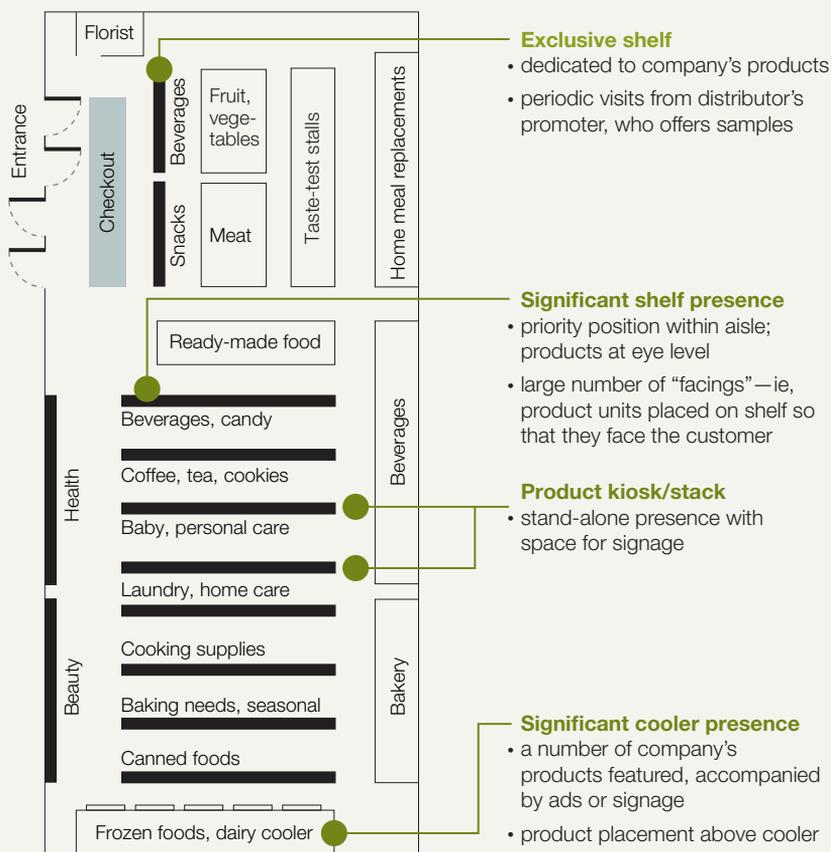
Creating a 'picture of success' involves tailoring the retail value proposition to different types of outlets.

Example of large Chinese dairy player's store presence (floor plans not drawn to scale)

● Customer activation elements

Urban hypermarket (45,000–55,000 sq ft)

Potential incentives offered to stores in exchange for commitments include discounts, fatter profit margins, expensive displays, frequent deliveries/sales visits, and free equipment.

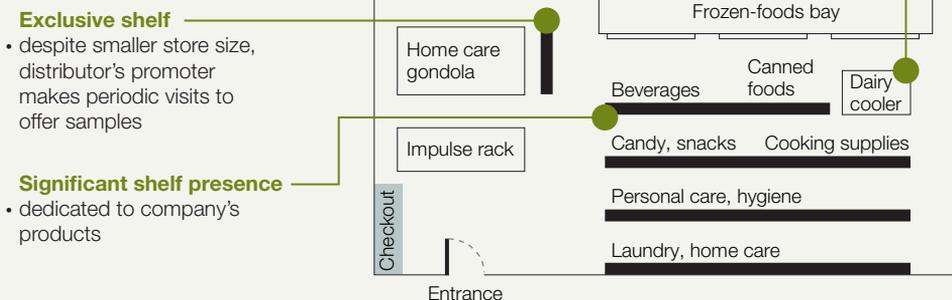


Small convenience store (1,500–2,000 sq ft)

Potential incentives include free equipment, brand promotions, flashier displays, and outside signage to stand out from the crowd.

Branded cooler

- exclusively for company products



Manufacturers must calibrate their concessions carefully. All “gives” to retailers should be compensated by “gets”—for example, requirements that retailers guarantee certain sales volumes or provide superior shelf space. One leading multicategory food company in Mexico offers to install high-end shelves and displays in smaller stores in exchange for a retailer’s commitment to display its products prominently. The degree to which retailers actually deliver these “gets” provides valuable information to manufacturers as they periodically reevaluate the potential of outlets.

3. Balance cost and control in your route to market

Even the most sophisticated segmentation strategy can be undone by flawed models for transporting goods and serving retailers. Direct delivery with a manufacturer’s own trucks and trained employees is the preferred option for modern trade. But such costly support must be confined to outlets that really matter. Often, “basic availability”—with products delivered, say, by wholesalers—will suffice.

In Indonesia, Unilever, for example, services supermarkets and hypermarkets with its own vehicle fleet. But because the archipelago has thousands of islands, Unilever reaches minimarts through a network of distributors who work solely for the company in the categories it carries and serves independent small retailers and chains through another network. For ice cream vendors, who sell from freezer-equipped tricycles, Unilever relies on ice cream concessionaires. In India, Unilever has used a similar multiple-channel approach to gain access to more than half of the country’s population—all urban centers and 85,000 villages, which in some cases it serves with bullock carts and tractors.

Coca-Cola prefers direct delivery wherever possible. But in Kenya, where rural and urban roads alike are often too rough for Coca-Cola delivery trucks, the company delivers on bicycles and pushcarts to microdistributors, which in turn can reach retail outlets covering 90 percent of the country’s population. This vast network of small vendors has not only generated enormous goodwill for Coca-Cola but has also been cited by the International Finance Corporation as a model of how global companies can foster local entrepreneurs.

In many of these markets, companies must deal with thousands of distributors and wholesalers, which often struggle to realize the manufacturer's brand goals or strategies for influencing the behavior of retailers. Executives at many leading global consumer companies argue that segmenting and prioritizing distributors is as important as segmenting and prioritizing sales outlets. The goal is to build the skills of reliable, high-priority distributors so they can help manufacturers achieve their strategic goals for different kinds of outlets—which sometimes means consolidating distribution networks.

In India, for example, Hindustan Unilever consolidated its distributors for the Mumbai market from 21 firms to just four megadistributors.⁶ Similarly, more than a decade ago Procter & Gamble shrank the number of its distributors in China. Acquisitions can be an excellent opportunity to reevaluate distributors; over three years, a leading fast-moving consumer goods company in Russia did exactly that, transforming a tangle of 300 overlapping players of widely varying capabilities into a core of 100 focused, high-performance stars.

4. Arm the front line with skills and technology

The many moving pieces in these sales and distribution networks demand a relentless focus on frontline execution. Xian-Janssen OTC, Johnson & Johnson's consumer health care arm in China, requires its sales personnel to undergo five formal training modules over five years to master professional skills, such as salesmanship and team management. The company also coaches employees informally (with sales visit "shadowing") and conducts weekly "education meetings" where difficult sales situations encountered during the week are reenacted and analyzed. What's more, high-performing companies recognize that "what gets measured gets done," so they set targets and offer incentives aimed not just at raising sales volumes but also at promoting proper retail execution, such as the quality of in-store product displays.

At the same time, companies are well advised to recognize the varying capabilities of their emerging-market sales forces and to find simple ways of standardizing the quality of sales visits as far as possible. For instance, Kang Shi Fu, a successful Chinese manufacturer of beverages and noodles, provides its salespeople with checklists that are

⁶Sudha Menon, "HUL set to streamline distribution network," LiveMint.com, January 9, 2009.

tailored for each outlet segment and must be completed during every visit. Guidelines for Pepsi salespeople cover a host of specific duties, from greeting the retailer to checking inventory levels. Checklists and standardized approaches are useful both when manufacturers hire and manage their own sales forces and when they rely on (and closely supervise) those of distributors. “Shadow management” of this sort has proved effective for several leading global companies in China. Often, sales managers are “embedded” with distributors to train staff and offer advice on how to execute different strategies for different store types. Embedded managers also join visits with distributors’ sales teams to monitor performance and provide on-site coaching.

Technology is an increasingly important tool, with handheld devices for salespeople proving especially useful. A snack company in the Middle East uses satellite-linked devices, so their geo-coordinates can be tracked. If outlets aren’t visited in the right order, the devices are disabled, preventing the salespeople from completing their tasks. A central team can also periodically monitor the location of individual salespeople, to ensure that they truly are on sales visits and not engaged in side jobs. These handhelds come preloaded with detailed instructions on each outlet the salespeople are about to visit—for instance, its outlet segment, historical sales information, specific products to sell, and key action steps to complete from the last sales visit. Not long ago, such functions involved a specialized mobile device and high hardware costs. Today, an app on a low-cost smartphone can perform many of these tasks.



Eventually, mom-and-pop stores may go the way of buggy whips, and the descendants of today’s village children in countries such as China and India may scoff at the idea of buying products and services anywhere but in climate-controlled malls or online sites. For now, though, manufacturers staking their futures on these booming economies must forge lasting relationships with a diverse set of retailers—before competitors do. ○

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