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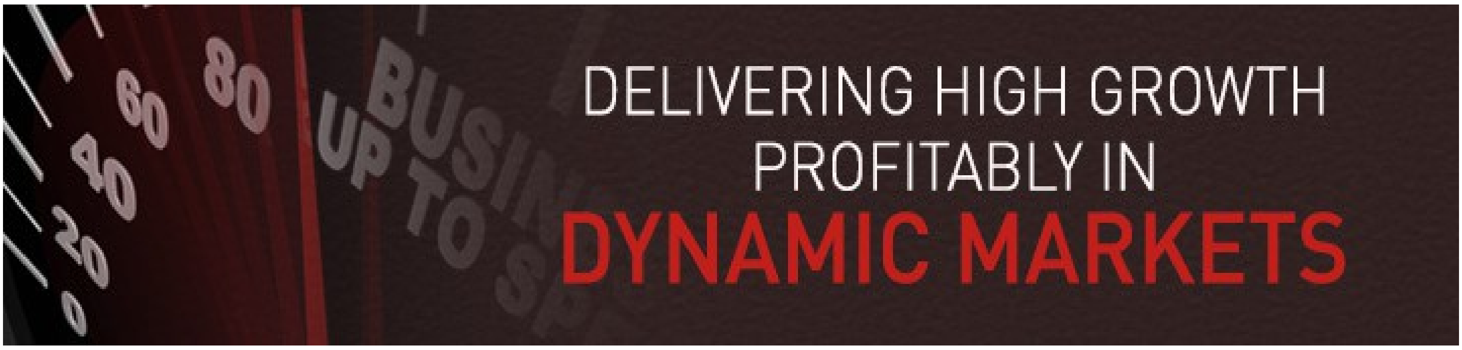
TOMORROW'S CHALLENGES



DELIVERING HIGH GROWTH PROFITABLY IN DYNAMIC MARKETS

By Professor Bala Chakravarthy – August 2013

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Delivering high growth profitably and on a sustained basis is difficult in any market -- profit and growth pull in opposite directions as do short-term results and sustained performance. Doing so in a dynamic market is especially challenging. The market forces reconfigure in unpredictable ways making it difficult for corporate leaders to carefully assess the scope and size of an emerging opportunity and the risks associated with investing in it. They do not have the luxury of relevant data or the time needed to analyze all of the available options carefully. Opportunity is fleeting and those in second place face an uphill battle.

Consider, for example, emerging markets. Every major multinational corporation (MNC) has big plans and good reasons for participating in these markets as they are estimated to be worth $30 trillion by 2025, equalling the projected size of currently developed markets. But in order to profitably harness that immense growth opportunity, the MNC has to deal with institutional voids in host countries and the policy fickleness of their governments. There are added pressures to perform well on the social and environmental dimensions. The even bigger challenge comes from very capable and ambitious local players, who not only seek to dominate their own backyard but also to leverage their domestic successes to become contenders on the world stage. Both MNCs and their challengers have their work cut out for them in trying to deliver high growth profitably in these dynamic markets.

Winning in dynamic markets requires firms to take a long view, and be proactive in their response to market opportunities and in building new competencies. If one were to quantify all of the risks involved, the required rate of return on any investment would quickly rise to the “No Go” zone. Yet great successes have been achieved by placing informed and patient bets.

Consider the case of MAGGI Noodles in India. At the time of its launch in 1983, MAGGI was not a power brand in the Indian market and noodles were fairly alien to the Indian consumer. But by 2010 Nestlé had grown MAGGI to become one of the top food brands in India and built instant noodles from a nothing to a $300 million category that was highly profitable and growing at 22% a year. Successive zone heads for the Asia Pacific region kept MAGGI Noodles on course despite its poor profitability for around 15 years. The category could easily have been killed any time during that period but top management stayed the course.

It is not the leadership at headquarters alone that matters. In the case of MAGGI Noodles, successive market heads for India also gave it their sustained support. Despite its poor profitability they persisted with the brand because it was building a loyal following and growing faster than other Nestlé brands in India. Over this period MAGGI Noodles developed a very strong competitive advantage in all elements of the value chain from procurement, manufacturing, logistics and distribution. Through a steady investment in brand building, MAGGI was developed into one of the top food brands in the Indian market. Even though the category has recently seen competitive interest from several strong MNCs, the competitive advantage that Nestlé enjoys through proactive investments is unlikely to be breached easily.

Emerging markets also need frequent experimentation, rapid scale up and quick exits. Instead of analyzing a market opportunity, corporate leaders have to learn to experiment. Samsung has achieved great success precisely by being such an experimenter. Whether it is India or Brazil the company is experimenting continuously with new products and new features. The company tests its intuition about customer preferences by launching appealing products and features– whether it is in offering a special football button to simulate the sound and feel of a packed stadium to the crazed football fan or a dance button to transport the dance fanatic to the look and feel of an elegant dance floor. Experimentation has to be frequent. Decision speed has to be lightning so that no opportunity is stranded and no failure persists.

In order to support such experimentation, an MNC needs an agile organization. Leaders at all levels have to be entrepreneurial. Consider the case of Haier, and its impressive history of transforming the traditionally staid and commodity manufacturing business of home appliances into a vibrant and entrepreneurial enterprise. The world’s largest white goods manufacturer, Haier has reinvented its corporate culture at least three times over the past three decades. Nearly every strategic move that Haier has made has been to unleash the entrepreneurial talent of its workforce. More recently, Haier aims to organize its 80,000 employees into 2,000 self-managed entrepreneurial units, called ZZJYTs or autonomous business units. The company aims at zero-distance between itself and its customers. But for Haier to respond with agility to its customers, employees had to feel empowered to act fast and self-confidently. Each autonomous business unit is a self-organizing autonomous work team that can decide what products to make and in what quantities. It can just as easily withdraw products that are not successful in the market place.

Companies like Nestlé, Samsung and Haier offer examples of what can be done in dynamic markets. They have grown profitably through a long-term vision, patient investing, careful experimentation and an agile organization.

Bala Chakravarthy is Professor of Strategy and International Management at IMD and held the Shell Chair in Sustainable Business Growth at IMD from 2003 to 2012. He will teach on the Orchestrating Winning Performance program, which will take place in Singapore from November 17-22, 2013.

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