You can't Fool your Customers

by Peter Oertli and Thomas Wach

Abraham Lincoln was right with his often quoted pronouncement "*you may fool all the people some of the time; you can even fool some of the people all the time; but you can't fool all of the people all the time*". This is true in politics as well as in business. In the Google age of the 21st century, customers in emerging markets - particularly in India - are well informed about the scope of products and services of your company and those of your competitors, their prices, their strengths and their weaknesses. Their executives have often graduated from IIMs, IITs, some even from ETH, MIT or Harvard, and have long been familiar with the textbook theories of strategic management. What is more, they know very well what they really need, what they want, and what they don't want. The same is true for middle class consumers. They are very clear in their minds as to the quality, the level of sophistication, the productivity (for capital goods), and the cost of products and services they want to buy from you or indeed from your competitors.

Think Global, Act Local: the past paradigm for the 20th century

This was the classical approach for large MNCs and SMEs from OECD countries who designed their products according to the needs of their clients in OECD countries, i.e. mainly in the triad USA – EU – Japan. "Global thinking" in the sense of global top-down strategy, R&D and marketing were centralized in their headquarters, like Houston, Manchester, Essen, or Tokyo. Customers in Emerging Markets had to adapt to the supply under the motto: "*Take it or leave it*".

A case in point is, for instance, the car **Ford Mondeo**: - one global strategy, one product and one brand. This "world car" from the USA did not live up to expectations, because it simply was not competitive in many of the local markets.

Another classical example, showing us how this approach in effect misfired is **Coca-Cola**. In the 1990ies Coke's HQ in the USA had worked out a strategy to reenter the Indian market, having officially withdrawn in the 60ies after refusal to dilute their equity. Their strategic approach was simple but ineffective: Just buy the Indian Cola brand leader "**Thums Up**" with a market share of 60% for 100 million USD only, replace the local concentrate and brand name by "Coca-Cola", centralize the highly decentralized bottling plants and wait for nice profits.

Coke completely neglected that the Indians loved not only their customary brand name but also the slightly different taste of their wonderful "Thums Up: I want my thunder". The Indian consumers rejected Coca-Cola. As a result **Pepsi Cola** benefited from increased sales and managed to raise its market share. The whole aftermath of re-introducing the popular brand "**Thums Up**" by means of a huge TV and advertising campaigns, and re-optimizing the bottling plant network in India cost Coca-Cola a total sum of 800 million USD (not Rupees). After this Hindustani re-incarnation, "Thums Up" turned out to be the most powerful brand of Coca-Cola in South Asia. Interesting details about this case can be read in (1).

The Logo of Thums Up®

Act Global, Think Local: the new paradigm for the 21st century

Times are changing fast. It is now for the suppliers from the OECD countries to adapt to the real needs of the Emerging Markets in an extremely competitive environment. The new motto is: "*You supply it or forget it*". The shift of growth of global economy towards the Emerging Markets, mainly in Asia and Latin America, should motivate the suppliers from OECD countries to comply with the real requirements of hundreds of millions of consumers, making up the growing middle class population in these areas. This does not apply to consumer goods alone, it also goes for commodities and capital goods in the whole supply chain. This new paradigm did not start just recently nor has the old paradigm become completely obsolete. However, there is a gradual but steady shift in most industries. Whilst early movers started with this decentralized bottom-up, locally adapted approach long ago (Nestlé), late movers have done so under pressure (Coca-Cola). The general trend world-wide, however, is irreversible: With increasing globalization the relative importance of the classical OECD countries will gradually decline. In a recent research of Stefan Bergheim regarding global growth centres for the next 15 years, Deutsche Bank (DB) forecast the following top five growth centres until 2020, derived from four so called growth drivers: population growth, the investment ratio, human capital, and trade openness (2). We would even consider these figures of DB as being on the conservative side, if compared with UBS figures published in 2004 (3):

Top 5 Growth Centres	GDP growth 2006-2020 in % p.a.	
1. India	5.5	(UBS: 6.2 – 7.1)
2. Malaysia	5.4	
3. China	5.2	(UBS: 5.2 – 6.2)
4. Thailand	4.5	
5. Turkey	4.1	

The following examples will show how some of OECD's leading companies from all sectors of industry have managed their transition towards globally acting groups, who have learnt to think locally, i.e. to adapt to different cultures and customs, to different levels of purchasing power and product sophistication. This does not mean that cheap low quality products are being propagated. On the contrary, simplified but high quality products with locally adapted technology at lowest possible prices are required. The success formula is to develop a differentiated strategy with a positioning in multiple markets, what we call a "**multiple market positioning strategy**" (**MMP**):

Nestlé S.A. is the world's largest most diversified and decentralized food company. Only 2 % of its sales turnover is made in its home country. For many decades already Nestlé has been adapting the tastes and the composition of its products to requirements of local consumers. If you travel around the world and drink Nescafé in different countries, you will taste the difference. Nestlé also adapts its brand name to suit local expectations: The popular brand name in Europe of "Nescafé Gold" was changed in the USA into "Taster's Choice" and was successful. Also Nestlé never impose their brand on acquired companies; why should they? Since decades Nestlé always maintained and cultivated good brand names of firms they had acquired such as Maggi, Buitoni and San Pellegrino.

Swatch Group is the world's largest manufacturer of wrist watches with a value share of 25% of the world's market, equaling total sales of more than 4 billion CHF in 2004.

In the 1970ies the classical Swiss watch industry with its highly-priced mechanical watches came increasingly under attack from good quality low-cost electronic watches "Made in Japan". The two large Swiss watch groups SSIH and ASUAG were on the verge of bankruptcy. Thanks to the initiative and creativity of Nicholas G. Hayek in 1983 SSIH and ASUAG merged into SMH. An innovative product, the "Swatch", was launched, a low cost watch of highest quality, reliability and artistic features, creating an emotional-added value in the form of a watch with a design to please its wearer. Since then Swiss watch industry has experienced an actual re-incarnation and has regained its traditional role. The fourfold market positioning of the Swatch Group is now:

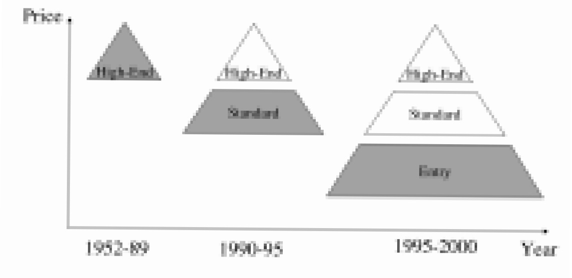
- Luxury Segment with brands such as Breguet, Blancpain, Glashütte, and Omega
- Upper Market Segment: Longines, Rado and Union
- Middle Market Segment: Tissot, Calvin Klein, Balmain, Hamilton, Certina, Mido
- Entry Level Segment with just two brands: Swatch and Flik Flak.

Since 1985 the SMH (now Swatch Group) has established several factories for watch components and assemblies in countries like Thailand, Malaysia, China, and Brazil.

Charmilles Technologies S.A. was traditionally one of the few world leaders in Manufacturing Technology, producing high-end Electrical Discharge Machines (EDM) at highest technological standards. Similarly to the watch industry, **Charmilles** and her Swiss competitor **AGIE S.A.** were attacked by Japanese competitors. The Japanese offered less sophisticated but "good enough" standard type EDMs at far lower prices. In 1990 Charmilles was in a deep crisis and her share of the world market had dropped to below 10%. Charmilles' CEO André Richoz then took a courageous decision – against strong internal opposition – to introduce standard type EDMs in addition to their high end products. As a result, after 3 years, Charmilles regained her 26% share of the world market. This encouraged Charmilles to go one step further and produce entry-type simple but good quality EDMs in Asia. After that Charmilles' parent company +GF+ bought AGIE (still in the high-end segment). The merged **AGIE-Charmilles Group** then achieved a global leadership position with a joint value market share of over 40%. Today this important capital goods group has a threefold market positioning:

- High-End Machinery Segment with manufacturing bases in Geneva and Losone
- Standard Machinery Segment with manufacturing bases in Geneva and Losone
- Entry-type Machinery Segment with manufacturing bases in Brazil and China.

All these companies have maintained their original Swiss, Brazilian and Chinese brand names.



Nokia Group in March 2004 launched the **Nokia 1100** "Made for India", an entry level product specially designed for the Indian market. It has several features that were incorporated, based on extensive consumer research conducted in India: It has a built-in torch light that is useful, given the uncertain power supply situation in India. It has a dust resistant keypad, adapted to certain environmental conditions in India, as well as an anti-slip grip that is designed for hot and humid weather. The Nokia 1100 is compact, reliable, easy to use, and suitable to everyday lifestyle in India, giving it an edge over its rival products.
Surprisingly the Nokia 1100 was not the least expensive phone in the Nokia range. It was even priced at a significant premium over entry level phones of the competition. However, it quickly became by far the best selling phone in the country and Nokia gained 5 market share points within 9 months. At the same time Nokia's brand preference shot up from 66% to 77%, refuting the myth that India is a "price sensitive" market and reinforcing Nokia's belief that the Indian consumer is a "value conscious" buyer.
Localization of Nokia's products to create value in the Indian market has long been a cornerstone of their strategy. Initial efforts started by small steps:

- 1998: The Nokia 5110 was the first phone with an Indian ringing tone, which was hugely appreciated by the Indian consumers " Saare Jahaan Se Acchhaa "
- 2000: The Nokia 3210 was the first phone with a Hindi user interface or menu
- 2002: The Nokia 3610 was the first phone with Hindi text input for SMS.

The conclusion to be drawn from the Nokia story is that companies will require a holistic approach to the Indian market, focusing on a thorough understanding of customer needs, cultural differences and the distribution landscape to develop a relevant and differentiated offer that will result in market success (4).

Why do some Swiss miss the bliss?

Some people may argue that these findings about Multiple Market Positioning may very well go for

Multi National Corporations (MNCs) having large financial resources and management capacity, but that there is probably no way to realize this approach for a Small and Medium sized Enterprise (SME), struggling to realize its daily tasks in business operations. They should bear in mind that back in 1989 Charmilles was an SME, fighting hard to get more orders. Their products then were too sophisticated and too expensive for most of the prospects. Not all their clients needed all the complex functionality and frills of their machines. A number of top notch Swiss companies in various industries were driven out of the market in the last 15 years. - Why? Many of these largely technology driven companies were run by engineers, focusing on technology rather than economy.

This does not mean that one dimensional cost cutting programmes should be propagated. **Both parameters, technology and economics, should be well balanced**. The point is that our SMEs should also adjust their innovations to the needs of the fast growing BRIC**-markets, rather than to the needs of low growth OECD-countries.

Some killer phrases you often hear are:

If we introduce entry-line products we will **compete** with our high-level products.

If we introduce low cost products we shall reduce our **profitability** and ROI.

If we collaborate with Asian companies many of our people will **lose their jobs.**

If we "sink" to entry level product lines, we shall lose our **high quality image.**

If we **diversify** to several lines of similar products we shall lose our **focus.**

We just do not have the **management capacity** to start such kind of projects.

There are more than a dozen similar killer phrases that are common in our country. Some Swiss believe it will be easier to wait for the next business cycle uplift in the OECD countries instead of acting proactively and accepting the long-term structural changes that are happening in the world. **They miss the bliss of entering a new world of opportunities.**

Arguments and Remedies to Reanimate European Industry

The nasty side of killer phrases is that there is practically always a spark of truth in them, but they rarely stand for the whole truth.

In order to refute some of the prejudices and misunderstandings, let us comment on the six killer phrases mentioned above:

Internal Competition: It is true that different product levels can compete with each other. But they will also compete with your competitors' products. **Internal competition strengthens external competitiveness:** a proven law in macro- and microeconomics (5). The probability that you can precisely fulfill your prospects' requirements with MMP is three times higher than without. Thus the long-term customer satisfaction will increase.

Profitability: It is wrong to assume that profitability will decrease by introducing MMP in the sense that "what is low cost is low margin and low profit". In the case of capital goods the exact opposite is true: It is far more difficult to sell few pieces of high cost equipment for, say, 1 million CHF each at an attractive margin (in %), than to sell a large series of entry-line products for, say, CHF 50'000 each at a profit. Economies of scale and standardization of all kinds of processes have clearly shown higher profits (in %) for entry-type products. This was also proven in our case study of Charmilles.

Creating Jobs is one of the key challenges in Europe. At first sight, collaborating with Asian industries by outsourcing or offshoring looks like exporting jobs to Asia in a huge win-lose zero sum game. Whilst this may be right in the short-term, in the medium and long-term just the opposite is true, in microeconomics, as well in macroeconomics, as was proven by Nobel Laureate in Economy, Lawrence Klein, in 2004. In fact there is a win-win non zero sum game, where also the partners in the OECD countries benefit through higher profits, thus enabling them to invest more in R&D, in product innovation and in becoming more competitive. This will not only preserve existing but most probably create new jobs. As opposed to that we can foresee that protectionism and attempts to preserve existing jobs at all costs as well as evading the challenges of globalization will end in a lose-lose below zero sum game for OECD economies.

Your High Quality Image is important to be competitive, **but it must be credible**. In different parts of the world customers have different views and expectations about "quality". In the old days good quality was identical with good technical performance and high reliability only. In today's complex world we distinguish 32 different quality criteria (16 each for product quality and service quality) which differ from customer to customer. Just three out of these 32 criteria are: cost of investment, productivity and cost-value ratio. Depending on the requirements of your customer, he will prefer a high-end, a standard or an entry-type solution. If you can offer all three, you are better positioned than your competitor who may be able to offer only one or two solutions. Your "quality" reduced to these three criteria only – ceteris paribus – will be better, thus giving you a competitive edge. As a result you will not lose your high quality image but enhance it.

Diversification versus focused strategy: If the normal approach in your business is a focused strategy, MMP will not bring you any closer to a lateral diversification into different areas of industry, of products, markets and applications, even though it may appear to do so at first sight. Your main focus on targeted products and markets will remain unaltered. What will change, however, will be the variety and the scope of possible solutions within the framework of your targeted area, creating new levels of product sophistication. You will be in a position to offer your customers a larger choice of solutions with different levels of productivity. Without losing your focus, you will thus be in a position to sell more due to additional differentiation.

Management capacity is an important point to be considered, especially for SMEs. You cannot introduce an MMP concept without additional capacity. The best way to do it is via the means of project management, where you can hire external specialists. The five main stages in such an "Investment Project for the Future" may be defined as follows:

1. Preparatory Stage: completing of checklists by the clients and other stake holders
2. Interview Stage: clarification and verification of all answers given in stage 1
3. Conceptualization: evaluation and reporting on MMP strategy options
4. Implementation: preparation of final decision and implementation of measures
5. Monitoring Stage: supervision of project progress and corrective actions.

Additional benefits: You may call these benefits "cross-fertilization" or "cross-selling" by getting an early access to a particular customer who will return later asking for other products and services at a different level of product sophistication. The requirements usually increase with the growth in size of the client's company in an Emerging Market. If the customer is an SME, he will usually start by buying entry-type products. Later on, having grown to a larger company, he may require standard type or even high-end products, depending on the type of industry. On the other hand, even in OECD-countries some large companies may appreciate the possibility to buy not only high-end but also entry-type products for applications where appropriate. In the advanced stage of globalization in the next 20 years to come, an intensive "cross-selling" will take place in all areas of industries worldwide. Those offering MMP products will benefit most.

We are confident that our small and medium sized enterprises (SMEs) in Europe and more particularly in Switzerland will grasp the huge business potentials of MMP in OECD countries as well as in Emerging Markets. Therefore let us terminate by saying: "Let's get cracking".

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Two Phases of Industrial Globalization

Starting phase	**20th century**	**21st century**
Characteristic Trends	Global development	Global integrationLocal differentiation
Paradigm	Think global,act local	Act global,think local
Main Parameters:		
Priority thrust ofStrategy development	**Top-down**, based on OECD needs, central R&D and production, central HQ in OECD countries	**Bottom-up** network based on multiple local needs world-wide,including also bigemerging markets: **MMP in BRIC****
Local/ regional/ global development & sales	Local production, global sourcing,export worldwide, starting offshoring	Decentralized R&D, production in several big offshore-countries: eg China, India, Brazil
Branding strategy	Single brand	Multiple brands
Organization Level of centralization	Divisional global Mainly **centralized**, decentralized input	Global network Mainly **decentralized**, central coordination
Typical examples of early & late movers	Catholic Mission > 50	Nestlé > 1912 (India)
	Charmilles > 1952	Charmilles >1995
	Swatch/SMH > 1983	Swatch Group > 1985
	Coca-Cola > 1990	Coca-Cola > 2000
	Hilti Group > 1950	Hilti Group > 2000
	Ford Mondeo > 1993	Ford Ikon >2000 (India)
	Rolex	Nokia > 1998 (India)

****BRIC** = Brazil, Russia, India, China; Research by Goldman Sachs, 10/2003

Source: *Research and clients’ projects of OEC Oertli Consulting 1995-2005*

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