Wilson Perumal & Company

GMCI GUIDE FOR MULTINATIONALS

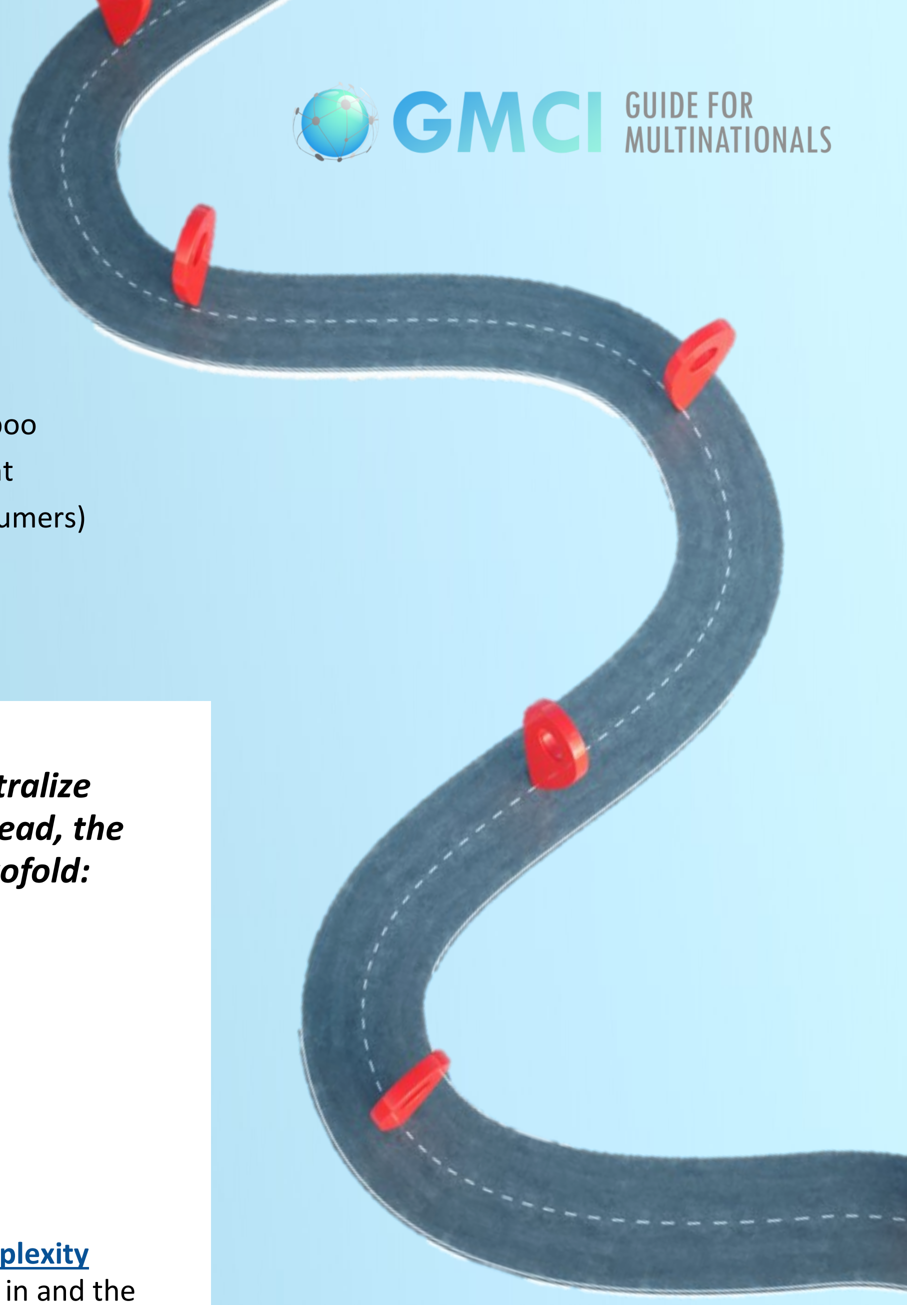
ARTICULATE YOUR GEOGRAPHIC STRATEGY

Your core products and services, the well-known brands with international recognition, may be valuable assets helpful in breaking into new markets. But replicating your core is not sufficient as a strategy. Each market requires a clear articulation of where you will play (customers, product segments, etc.), and how you will win (value proposition, pricing, operating model etc.).

Beware the hubris that can come with being a large, well-resourced multinational. In fact, strategically, it is probably a safer starting point for a multinational to assume it is at a disadvantage as it enters a new market relative to domestic competitors. Local players are often more in tune with local tastes and are better at adapting to the market than multinationals—and they often move much faster.

The entrepreneurial pace in countries like Vietnam remains breakneck. By contrast, one of the key pain points we hear from country CEOs in large global companies is that many decisions require head-office approval, and can take months, even as local competition eats their lunch.

One key challenge for global companies is to localize strategy. Consider the global cosmetics company that adjusted its range to each market—a vibrant color palette for Brazil, and more neutral tones for Sweden.



Similarly, CavinKare, a South Indian consumer goods company, has thrived alongside giants like P&G by tailoring innovations to suit local tastes. In 1999, the business launched a 4ml sachet of Chik shampoo priced at 50 paise ($0.01), capturing a segment of the market (rural and low-income city consumers) that could not afford larger bottles offered by competitors.

Localizing strategy is important to neutralize domestic competitors. To really pull ahead, the opportunity for global companies is twofold:

1. **Leverage the advantages of being a multinational**

   Create a value proposition that local companies cannot copy

2. **Develop a 'macro' geographic strategy**

   Detail which **Global Markets Complexity Index** (GMCI) groups you will play in and the set of capabilities required to win

The first point—leveraging the advantages of being a multinational—requires articulating how your scale, brand, or capabilities create a unique value proposition. This helps inform your country strategy, and may even influence which markets you play in. Brand equity will carry to some places more than others.

Other examples of potential advantages include:

- **Supply chain resilience**

  In 2015, GE localized production in some of its BUs as a buffer against protectionism in any one country

- **A reputation for quality**

  As an American brand, Yum Brands carries a perception of quality in its Chinese market and has maintained that brand by establishing exacting supplier standards

- **An aspirational brand**

  Starbucks now has about the same number of stores internationally as it does in the US and continues to accelerate growth in China despite tough local competition

On the second point, developing a 'macro' geographic strategy, it is important to remember:

> ***Complexity tends to creep in over time, with decisions that may make sense in isolation.***

Similarly, companies' geographic footprints often expand in the wake of acquisitions or the pursuit of specific customers, versus a deliberate expansion decision. Each GMCI group requires different capabilities to succeed. For example, to win in **Group 2**, a company needs better capabilities navigating tough regulatory environments.

Given that there is cost and effort to mastering each capability, it is unsurprising that we see a general correlation between operating in more groups and a negative impact on profitability.

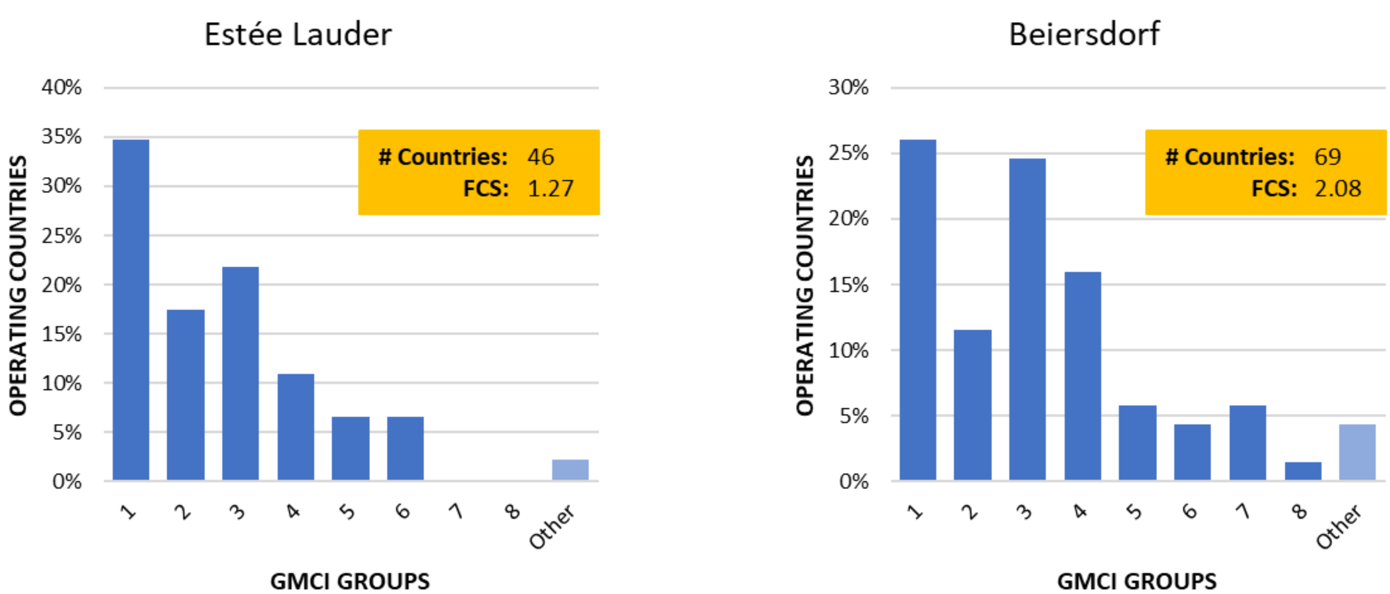
If we consider strategy to be the allocation of scarce resources, this applies equally to a consideration of where to place bets across the GMCI groups. For example, let's consider Estée Lauder and Beiersdorf—both cosmetic companies have similar scales, but distinct differences in their geographic strategies. (See Figure 1 for their respective GMCI profiles.)

Despite operating in fewer, less diverse countries than Beiersdorf, Estée Lauder has higher annual revenues. The company maintains a lower Footprint Complexity Score (FCS) by having more than 50% of their operations in Groups 1 and 2, with no operations in Groups 7 and 8.

Beiersdorf operates in 50% more countries with diverse groupings. Less than 40% of their operations are in Groups 1 and 2, and they maintain nearly 10% of their operations in Groups 7 and 8. These footprint decisions drive both revenue per country and operating margin levels.

FIGURE 1

OPERATING IN A DIVERSE AND LARGE SET OF COUNTRIES HAS INCREASED FCS FOR BEIERSDORF



Note: "Other" accounts for countries not included in GMCI groups

In addition to this broad operating network, Beiersdorf also maintains over 160 international affiliates. In their words, their operations, affiliates, and products "allow Beiersdorf to be at home throughout the world." This global strategy comes at a cost. The company has operations in some of the highest complexity countries, including Pakistan, Kenya, Ghana, and Nigeria.

In contrast, Estée Lauder's recent acquisitions in Korea and Canada are an example of thoughtful expansion into low-complexity countries.

The lure of being a truly global company, with operations and products across diverse countries, can lead companies to chase growth at all costs. Managing new channels, products, and services—as a result of the breadth of geographic footprint—adds tremendous complexity to an organization. Figure 2 shows how this additional complexity correlates with profitability.

We see similar patterns with large multinationals. Unilever, with an FCS of 2.3, has expanded in higher complexity countries, while Johnson & Johnson operates in fewer lower-complexity countries and has an FCS of 1.7. The outcomes of this are clear—with JNJ achieving average operating margins above 25%, compared to less than 19% for Unilever.

Henkel, despite operating in far fewer countries than Colgate, has a higher FCS (2.0 vs. 1.4) and significantly lower operating margins (13% vs. 20%). This performance is driven by Henkel having 34% of operating countries in Groups 4 through 8, compared with just 24% for Colgate, which has no operations in Group 8.

Understanding market, operational, and regulatory complexity provides unique, invaluable insights when determining your geographic strategy and expanding into new markets.

[***Download the GMCI 2022 Report here***]

FIGURE 2

CPG COMPANIES WITH LOWER FOOTPRINT COMPLEXITY SCORES HAVE HIGHER MARGINS