Winning in Rural Emerging Markets

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General Electric's Research Approach and Findings

In 2010, General Electric launched an investigation into how multi-national corporations (MNCs) were adapting to rural emerging markets. A team of 33 executives and three academics examined models ranging from Toyota's vehicle servicing program in East Africa to Nokia's localized mobile handset financing in India to Egis Pharmaceuticals' worker retention incentives in Eastern Europe. The project included 15 case studies from India, China, Africa, and Eastern Europe. This article presents common tactics that these MNCs have used to successfully adapt to rural markets in emerging regions across five key organizational functions: product development, distribution, service, financing, and human resources.

Key words: Emerging markets, marketing strategy, growth strategy

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Introduction

Multinational corporations are searching for growth. As the financial crisis lingers in the U.S. and Europe and GDP growth is negative or low in most developed regions of the world, firms are being forced to go further afield. While international marketing once meant entering countries similar in demographic, economic and cultural terms to a firm's home country, today, going abroad for growth is more likely to mean entering an emerging market. Moreover, the greatest growth may come to firms who recognize the enormous variance that exists between rural and urban areas of these markets. "Urban myopia" has led many firms to focus on the vast cityscapes of these regions, but there is significant opportunity to be found beyond them. Rural areas are the next frontier.

Emerging markets are attractive for several reasons. First, the population of emerging markets (approaching six billion people today) is significantly larger than developed regions (just over one billion), with population growth rates that are higher and are projected to remain so for the foreseeable future.[1] Second, because emerging markets are in the earliest stages of economic development, their economic output (GDP) is growing faster than developed markets.[2] Third, it is believed that this growing GDP will, over the next few years, translate into a greater ability to purchase.[3] Within emerging markets themselves, rural areas hold particular promise.[4] In India, 53% of fast moving consumer goods (FMCG) demand and 59% of consumer durable demand comes from rural markets[5] and overall, rural markets generate between 56-60% of GDP.[6] Further, the low penetration of many types of products in rural markets creates significant opportunity for entering firms.[7]

Three years ago, a team of General Electric (GE) managers and academics teamed to examine multinational companies (MNCs) who are doing particularly well in the rural regions of emerging markets. GE wanted to learn what strategies were successful across a spectrum of industries and socioeconomic target markets and what common themes could be gleaned from the best practices of MNCs winning there today. The team spoke with executives from 15 firms that have achieved success in such markets, and here we synthesize the findings across companies and across five functional areas: product and product development; go-to-market (GTM) and distribution strategy; service strategy; financing solutions; and human resources and talent management. We illustrate how firms are reinventing their business models[8] through three well-known emerging market strategies: adaptation of products and services; integration of local players into the offering; and an openness to new ways of doing business across the value chain. We follow that with a discussion of specific tactics by firms who are winning in rural emerging markets today.

Further, we describe our research process in detail in the hopes that it may be useful or transferable to other firms considering similar market entries. We outline the GE approach to understanding rural emerging markets as a potentially powerful tool that other CEOs and top management could use to help their firms better understand and enter these markets.

What did we learn? We learned that establishing a network of spare parts is key to Volkswagen's gains in Eastern Europe and Toyota's in rural Africa; that ensuring that business partners can earn a living by joining your distribution network is essential to Coca-Cola's growth in Africa as well. Customizing talent management and employee rewards has been important for Egis Pharmaceuticals' success in Eastern Europe while developing a network of local village distributors has allowed both Novartis and Unilever to reach markets in deep rural regions of India. Microfinancing, movies, vans – all play a role in adapting and winning. Below we discuss these cases and several others in detail (summarized in Table 1) and highlight the tactics that led to the success of these multinationals in rural emerging markets.

----- Insert Table 1 about here -----.

Strategies for Success in Emerging Markets: A Brief Literature Review

Research on emerging markets has exploded over the last ten years. Although vast and varied, it has focused primarily on four key areas: strategies for winning in emerging markets; serving the bottom-of-the-pyramid consumer who lives on less than $2 a day; the increasing competition from "emerging giants" (large multinationals that are based in emerging countries); and the use of reverse innovation strategies to bring innovations – often disruptive innovations – from emerging markets to advanced markets for increased competitive advantage.

Previous research on successful strategies in emerging markets provided an essential foundation for our project.[9] We drew on this research and we extend it in three ways. First, we look at successful strategies around the globe, not just in specific countries or continents. Second, we look not just at "bottom of the pyramid" consumers, but rather consumers in all economic segments in these markets. Our most significant difference, though, is our specific focus on the rural regions of emerging markets. As discussed above, very little research has focused on rural emerging markets, and we believe our work makes a worthwhile contribution to this discussion.

In addition to research on MNCs and entry strategies in emerging markets, we also drew on research that looks at firms that are native to emerging markets but that are now or are becoming MNCs in their own right.[10] Our goal was not to single out these "emerging giants" for specific analysis, but to find best practices in our markets of interest, regardless of whether these strategies were executed by firms based in advanced or emerging markets. We studied firms of any origin that we witnessed achieving successful outcomes in rural emerging markets.

Finally, we draw on research on "frugal" and reverse innovations. Frugal innovations are product innovations that are "good enough" to meet the needs of local consumers in emerging markets at a price point that is typically significantly less expensive than potential imports from advanced markets. These products sometimes "trickle up" from the emerging market to advanced markets, creating "reverse innovations."[11] In our work, we did not focus on reverse innovations per se, although we encountered them in some of our case studies. Our goal was to outline a process by which a specific MNC sought to uncover innovations across five value chain functions and transfer those ideas laterally across all markets in which it operates, both emerging and developed.

As noted, the literature on emerging markets is vast and growing daily. From this base of knowledge, three key strategies emerge which informed our process.[12] We outline these three strategies below and follow that with a description of our approach and findings.

Adaptation of products and services is critical. In stark contrast to Levitt's push toward global standardization[13], researchers in emerging markets find that products and services should be adapted to the local emerging market, possibly to the extent of being designed from the ground up specifically for that market. This "flexible adaptation" suggests that to be successful, companies must break away from business as usual and reconfigure global products to compete with local brands, both in price and taste, adapting marketing and business management practices to local customs. Such localization at every level requires fundamental changes to the product offering including such changes as smaller pack sizes, unconventional distribution channels, and developing products in local flavors.[14]

Local players must be integrated into the offering. Many emerging markets are only recently created free markets. In many such markets, non-market forces still wield significant power. NGOs, governmental institutions, religious institutions, and community leaders may all play a role in how (or whether) new products are accepted, how consumer education is undertaken, and how distribution is achieved.[15]

The firms must be open to new ways of doing business. As Clayton Christensen brought to light in his work on disruptive innovations,[16] an entrenched and successful enterprise often finds it difficult to shift its business model from one of low volume / high margins to one of high volume / low margins, yet often that is exactly what is required to make the disruptive innovation successful. Businesses entering emerging markets may need to change their perspective radically as they work to develop offerings that address the "four A's" of emerging markets: Affordability, acceptability, availability, and awareness.[17] There are other perhaps even more fundamental differences in these markets that must be rethought if strategy is to be successful. Characteristics such as increased market heterogeneity between "haves" and "have nots," competition that comes primarily from unbranded products and made-at-home products rather than other brands, and a lack of adequate infrastructure are presented as key concerns that need to be considered as firms reinvent business models for these markets.[18]

Our findings support these three general themes with extensive empirical evidence through 15 case studies across four geographic regions. We add to this previous work by outlining the tactics used by firms in rural emerging markets to execute in these three areas. What are the variety of ways successful firms adapt products and services? What are new and creative ways firms are integrating with local communities and businesses to be more successful in rural emerging markets? What exactly are the "new ways of doing business" that lead to success in these markets? How do these tactics align across five critical functional areas of the firm?

The General Electric Approach

Prompted by the CEO of the company, a team of thirty-three executives from across GE was formed in the summer of 2010 to study how successful companies were winning in rural emerging markets and specifically what strategies and tactics were finding the greatest success. The goal was to benchmark companies in five regions or countries where GE believed the greatest opportunity in rural emerging markets existed: Latin America, Eastern Europe, Africa, China and India. In each of these areas, multi-national firms have been successful at building rural businesses, and the task was to identify best practices and lessons learned that could be applied to GE's business. Similar to other programs at GE, the purpose of the project included both developing concrete learnings about a segment of GE's business and creating developmental opportunities for its people.[19]

The executives came from offices in 14 countries and represented 12 different functions. Participants were selected using an internal process based on performance and expertise, and project leaders and were organized in matrix teams that were defined by regions on one axis and functions on the other (see Figure 1). Four to six executives were assigned to each regional team; the leaders from each regional team formed the regional leadership team. In order to gain the broadest possible insights from each firm, people with a variety of backgrounds were included in each regional team, including marketing, production, finance, and product design. Each executive (other than the regional leaders) was also assigned to one or more of the five functions being studied and thus was part of a functional team as well. In addition, five executives who were not assigned to regions acted as the functional leadership team which led the continual synthesis of information across regions but within each of the five functions. The entire project team also had a designated team leader, a project manager, and a communications leader, together called the project leadership team.

----- Insert Figure 1 around here. -----

Although several months in the planning, the project itself – data collection, analysis, and summary of findings – was conducted during an intense and short time-period lasting five weeks from kick-off to conclusion. Other responsibilities of the team members were delegated to colleagues to allow the team members to focus on this project exclusively. Participant pre-work involved reading the latest research on emerging and rural markets and reviewing information on the project and its goals. The participants then gathered from around the globe for one week at a U.S. office to foster a sense of teamwork and shared vision for the project and to formally kick-off the first phase: firm identification, instrument finalization and the initiation of data gathering.

The set of companies studied was determined by two factors. First, a list was developed on the basis of a review of articles published in economic and financial journals pointing out best cases and commercial successes in rural emerging markets. The team sought to include a variety of firms that targeted different economic segments of customers, that had different motivations for entering these markets (profit as well as social concerns), and that worked in a variety of industries, ranging from FMCG to services to consumer durables to pharmaceuticals. This list was supplemented by contacts from personal networks which facilitated gaining contact with the firms. Ultimately, 15 companies were included in the study with three coming from Africa, six coming from Eastern Europe, five from India, one from China and none from Latin America. (No firms in Latin America were able to participate in the time-frame that was required by the project; team members assigned to Latin America were redistributed among the other four regional teams). While not a representative sample, the team concluded that valuable learning was to be gained from the sample and proceeded with the project.

Also during the first face-to-face meeting, the group agreed upon an interview guide which formed the basis for all company interviews. It included general questions as well as specific questions on five key functional areas: product and product development, go-to-market and distribution strategies, service strategy, financing solutions and HR and talent management. The GE executives were encouraged to tailor the interviews appropriately based on the specifics of the firms under study. A sample of questions from the interview guide is included in Table 2.

----- Insert Table 2 about here -----

Once team members returned to their respective home offices, a schedule of regular teleconferences was used to organize progress. The operating mechanism of each week consisted of six core meetings (teleconferences) and a newsletter. Each Monday, the project sponsor, GE CEO Jeff Immelt, and the country General Manager who was the co-sponsor met with the functional and regional leaders as well as the project leadership team to receive updates on project status and provide project guidance. On Tuesday, the same group met without the sponsors to discuss guidance from the sponsor call, to review status and progress, review roadblocks and request resources. A more brief meeting with similar goals was then held with the entire project team. Wednesday and Thursday were reserved for meetings among the functional leaders, the regional leaders and their teams. To enhance the sharing of information, the communications leader published a newsletter (delivered via email) each Thursday that reinforced important points from the meetings earlier in the week and insights or findings as they emerged. Each Friday, there was a single debrief that included the project, regional and functional leadership teams. In addition to this structured information sharing process, one-to-one sharing of information was highly encouraged among team members. Data that was gathered was immediately included in shared databases with the intent that all team members would review data from other groups to analyze and crystalize initial themes as quickly as possible.

The company interviews themselves were conducted over a three-week period by personal interview between GE managers and their target firms' senior country executives – CMOs, COOs, CEOs, and country managers – who oversaw successful product and service launches in rural emerging markets. Interviews were done primarily by phone or email, but in some instances through personal visits. The interviews were supplemented by publicly available information.

Ten days into the data gathering process, all of the executives on the project held team discussions on their findings thus far and to begin to develop "straw man" theories on the drivers of success in rural markets. Data collection continued. Finally, the entire team was brought together again in one of the offices in China for 10 days to conduct two additional reviews of the data. First, the GE executives met to share stories, analyze, compare, contrast and synthesize the findings, searching for the best practices among the firms for each of the five functional areas being studied. Following that exercise, all of the information gathered was reviewed again with an emphasis on looking across individual firms and functional areas, searching for universal themes that consistently led to success in these rural emerging markets. Consensus among the team members regarding these themes was reached and the conclusions were shared within GE. The GE approach is summarized in Figure 2 below.

----- Insert Figure 2 around here. -----

Rural Emerging Markets: What Managers Should Do

Localize Solutions

Since Levitt's groundbreaking work calling for standardization in international markets[20], scholars have highlighted circumstances under which localization rather than standardization is a better approach. In that same vein, the most successful firms we found in these rural emerging markets had achieved success with solutions that had been localized on any number of four distinct dimensions: product offering, pricing and packaging, service offering or financing solutions.

Volkswagen Skoda in Eastern Europe

For the rural emerging markets it serves, Volkswagen's Skoda unit has created a locally designed and manufactured car that is tailored to the Eastern European market. Skoda accomplishes this by providing global car kits containing the core components of the car to local R&D groups which then create unique versions of the car with a feature set that is customized to the local market. One example of such a tailored feature was a "rough road option" for Volkswagen Skoda cars sold in Eastern Europe. Roads in Eastern European markets were much rougher than in other markets where VW sold, so this locally-designed feature was created to meet these specific needs. Recognizing that roads in Russia were even more rough than those of Eastern Europe, this feature – originally designed to be optional in Eastern Europe – was made standard in Russia.

A second localization lesson Volkswagen learned in Eastern Europe was the speed with which government requirements can change, particularly in emerging markets. VW was marketing an older version of a car, the Octavia brand, to Eastern Europe as it was more affordable for the local market. However, when new and more strict emissions standards were introduced with little warning or opportunity for comment by industry, the Octavia was no longer in compliance, disrupting VW's product strategy and slowing its progress in gaining market share. One tactic Volkswagen uses to avoid such surprises going forward is to establish local assembly plants in emerging markets. This allows VW to become more integrated into the community by working with local suppliers which greatly helps Volkswagen understand government regulations and better manage tariffs and currency fluctuations.

Finally, VW's service experience also illuminated several key lessons. Rural markets, due to their isolation, are particularly susceptible to shocks in supply. To ensure that its line of dealers and local mechanics were prepared to service Skoda vehicles at the moment of failure, it became critical for Skoda to work with dealers and local mechanics to ensure that all services covered under warranty were properly budgeted and tracked and that spare parts stocks were kept at levels needed to ensure timely repair in all areas of the region. Strict control measures put in place by VW ensure that the dealer network can meet reliability and quality standards.

Toyota in Africa

Localizing a service plan was essential to Toyota's success in a rural emerging market, this time in Africa. When Toyota looked to enter global rural markets, it designed a global rural vehicle to respond to the emerging middle class that lived in deep rural areas of emerging markets. The vehicle has four-wheel drive, functions on low-quality gas, and was designed to carry people or cargo equally well.

Despite this careful attention to the evolving product needs of the targeted middle-class customer, the key to Toyota's success in Africa was careful localization of their replacement parts strategy, both from a branding and availability perspective. Getting spare parts into certain African countries and distributing them can take up to four months. Having well-stocked distributors was essential to the initial vehicle sale, to keeping the vehicles on the road, to maintaining customer satisfaction and also to developing the brand value of genuine replacement parts. The unavailability of one small but crucial part could significantly degrade Toyota's brand image and worse, provide an opportunity for off-brand replacement parts to be tried and possibly earn the loyalty of Toyota vehicle owners. Thus, a distribution system of all parts for servicing these widely disbursed vehicles became essential. Toyota developed an IT system that was able to track lost sales of replacement parts, predict demand of key parts, and then assist in ordering such parts in a timely manner such that Toyota can ensure that the forecasting range was well beyond the time needed to order and obtain the required parts. Based on the success of the design and the service of the vehicle, Toyota has achieved 90% share of the Africa emerging middle class market.

Toyota localized its HR and talent management processes to adapt to the low level of skills in the labor market that accompanied the high unemployment rates in Africa. Toyota provided significantly more training than it might have provided in other markets. However, by combining this training with salaries that were good (but not top of market), Toyota developed a reputation as a good employer and its retention levels were high.

Even in one industry (automotive), we found that localization can range from adapting the product itself to developing a unique spare-parts inventory strategy to adjusting personnel training plans.

Nokia in India

Nokia localized for India very differently than Toyota in Africa or Volkswagen in Eastern Europe. First, Nokia used India as a source of innovation ideas for its worldwide markets. In India, longer battery lives are an important product feature, given the erratic nature of power in emerging markets, but rather than developing phones with longer battery life just for rural markets, Nokia realized that addressing this need – coming from the rural markets – would create a benefit that would be valued in every market. Rather than localizing this feature, Nokia fed the request into the global R&D effort as a potential future feature for all handsets. For the Indian market, Nokia localized service centers by going direct, opening over 200 collection and service centers, one of the few firms the team found that offered direct service to its customers.

In addition, Nokia localized its financing strategy. The cost of a cell phone in India can be up to 30% of a family's monthly income in a rural market, and handsets are not subsidized as they often are in developed nations because contracts are uncommon. Thus, affording a handset was a significant challenge in the rural market. Nokia partnered with microfinance institutions so that they could provide customers a phone up-front at no cost, but with payments spread over 25 weeks.

Nokia's most significant localized solution in India may be found in their marketing and distribution strategies. In addition to radio and television advertising, Nokia leveraged travelling vans of actors performing skits in rural areas on the topic of "Why is mobility important?" Nokia then use the same vans as sales and distribution centers after the show. Nokia's dual strategy of feeding needs into the generalized R&D process and localizing service, financing, distribution, and marketing strategy, has led to good results in one of the fastest growing cell phone markets in the world.

Create Adaptive Distribution Systems

One of the greatest challenges with entering rural markets is the distribution of products and services across a broad landscape which often includes difficult terrain that has kept the targeted area rural. Several of the firms the team spoke with took unusual or innovative approaches to the distribution challenge to achieve success in these rural markets, but each shared the following elements: they invested locally to achieve a complete distribution chain, they maintained a flexible approach to the structure of their sales force, and they invested significantly in awareness and education among their customers.

Coca-Cola in Africa

For several decades, Coca-Cola has realized the importance of expanding overseas as growth in the U.S. has slowed. In recent years, a focus on Africa has brought the firm success not only in urban markets but rural ones as well. Its success has been based on several key factors, all targeting the goal of becoming an integral part of the community in which they do business. First, Coca-Cola ensures that everyone who is invited to be part of their business is able to make a living from their efforts. By creating business opportunities for local investors, entrepreneurs and workers, Coca-Cola earns their support and “earns the license” to do business in that community. Second, Coca-Cola invests in socio-economic programs in the areas they serve. These include programs such as the Replenish Africa Initiative (RAIN), a program to provide sustainable, clean water sources, hygiene education and sanitation services to millions of people throughout Africa.

However, the innovation that has allowed Coca-Cola to create business opportunities across Africa and significantly build its business on the continent is its Micro Distribution Centre (MDC) distribution model. The MDC model accomplishes the goals outlined above while building a distribution network that allows Coca-Cola to sell its product deep within the continent, solving for “the last 2-3 kilometers.” This system sets up small businesses that have the objective to cover the last leg of delivery in urban areas where trucks may be blocked from entering narrow alleys and side streets and to cover potentially even further distances in rural areas, where roads, paths, and terrain are not amenable to trucks. These “last kilometers” are covered by the business owner using whatever means is most appropriate in that environment: pushcarts, donkey-carts, bicycles, or even carried by hand. Coca-Cola does not set up exclusive arrangements with its distributors; instead it targets the "right balance" of two to three distributors per region to ensure customers are supplied and a competitive environment is maintained. Further, Coca-Cola does not require the distributors to partner exclusively with Coca-Cola but allows them to leverage the value of their operation by performing, for example, small parcel delivery along with Coca-Cola's products. Finally, the owners who are selected to run the MDCs are typically not the poorest of the population but are those who have finished primary school or who have previous work experience.[21] This business model was developed for East Africa in 1999 but since then has spread to other continents.

The model allows Coca-Cola to be sold in physical locations previously unreachable by traditional distribution trucks, thus increasing Coke's market share and revenues. But, more importantly, the system works because of the engagement with the local entrepreneurs and business people. Jobs are created and at each level of the distribution chain, the people involved are able to earn a living, achieve skills training and are exposed to entrepreneurial thinking.

Novartis in India

Access to healthcare is limited in most rural markets worldwide, but awareness and education are equally underserved in rural areas of emerging markets. In 2007, Novartis looked to remedy both issues in rural India through a program called "Arogya Parivar" or "healthy family."

The program reaches over 42 million rural Indian villagers in over 33,000 rural villages with information about symptoms from 12 therapeutic areas including cardiovascular disease, tuberculosis, and diabetes. Also included is information about over 75 pharmaceutical products to address those diseases. Novartis divides the rural regions into over 200 cells, each covering approximately 25-35 square kilometers with approximately 100 villages and between 180,000 to

200,000 people. Each cell is served by a team of eight health educators and a supervisor. The health educators are typically local village people who travel daily to the villages in the cell, meeting with individuals and also giving lectures to groups. Meanwhile, the cell supervisors are tasked with overseeing the educators and working with local doctors and with pharmacies to ensure a good supply of products to address the most common illnesses. This involves both financing doctors' offices through micro-finance institutions as well assisting the doctors in finding the funding for inventories of stock and to purchase necessary equipment.

The program was designed for India and is further adapted to individual regions, both according to the diseases most likely to be found there and also according to cultural norms that may exist there. Further, the products included in the program must also fit – or be adapted to – the local environment, meaning that they must be easy to use and packaged in quantities that are affordable to the target market, similar to practices found in FMCG. The target for cost is below 1.25USD per week of treatment.

The program is equally focused on prevention as well as treatment, thus resulting in Novartis winning several corporate social responsibility awards over the last five years, including the Ethical Corporation Responsible Business Award in 2012. Further adding to the social responsibility aspect of the program, Arogya Parivar hires local villagers to perform the educational aspects of the program, proving jobs, income and skill enhancement to people in rural areas. Arogya Parivar has been very successful from a business standpoint. It achieved break-even status within 30 months and since 2007, sales from the effort have increased 25 fold.[22]

Build Trusting Relationships

Personal relationships based on trust and respect play a significant role in emerging markets and even more so in rural regions of these markets. Because no technological infrastructure has been built up to mediate communication between people, personal relationships conducted in face-to-face settings remain fundamental to the flow of business. Further, relationships necessary to accomplish business objectives include more stakeholders than just the buyer and the seller. When a firm is entering the market from abroad, local employees are its ambassador and guide to the tastes, the norms and the cultural mores of the local buyers. Further, governments play a much larger role in emerging markets than in developed markets, as do associations and non-governmental organizations (NGOs), increasing the need for strong relationships beyond simply those with customers.[23] The GE team looked at firms that adapted the way they managed relationships with employees and with customers to fit the local culture and the local structures in order to achieve success.

Unilever in India

Unilever's position in emerging and developing countries has been challenged by groups that often question multinationals' ability to balance competing objectives of serving the interests of customers in emerging markets while rewarding shareholders who may live far away in developed countries. However, reality is showing that Unilever is actually playing a beneficial role in the rural regions of several emerging countries such as India, Indonesia, South Africa and Vietnam.

Unilever's Shakti project in India was launched in 2001 in the Nalgonda district situated in Andhra Pradesh, India, as a rural initiative that targets small villages with a population of less than 5,000 individuals. The objectives are to create income-generating capabilities for underprivileged rural women and men by providing a sustainable micro-enterprise opportunity and to improve rural living standards of villagers through health and hygiene awareness. It covers over 100,000 villages through a network of 45,000 Shakti Ammas ("empowered mothers") or Shakitmaans (male members of the initiative) across 15 states reaching 3 million homes. These entrepreneurs are selected and then trained to sell HUL products to local villagers and in some cases, provide information on health and hygiene. Project Shakti contributes up to 10% of rural turnover nationally for Hindustan Unilever Limited (HUL) today; going forward, HUL's aim is to have 100,000 Ammas covering 500,000 villages and reaching 600 million people.

The Shakti project produces social benefits by not only producing household income for the Shaktis, but also reducing the greater population's risk of being infected by diseases. Unilever assigns to each entrepreneur a given area, creating a sense of ownership and responsibility. The competitive strategy is to increase margins to Shakti entrepreneurs and integrate business with social responsibility. A final objective is to develop partnerships with non-competitive companies so that the Shakti entrepreneurs can sell a wider range of products. HUL provides training in collaboration with other non-competing companies and NGOs. The training costs are kept low by hiring local people as trainers. In the ideal model, there will be three or four retailers for each Shakti entrepreneur to achieve good product penetration and increase the efficiency of the supply chain.

Unilever produces and sells low-cost products to local consumers in rural emerging markets, and is successful largely due to the relationships it builds with these Shakti entrepreneur-distributors. Unilever's efforts to reach consumers in rural areas of emerging countries creates jobs for local members of the network, brings health benefits to the end user and is financially successful for the firm.

Egis Pharmaceuticals PLC in Eastern Europe

Egis Pharmaceuticals is based in Eastern Europe, and its main activity is the development, production and distribution of primarily generic drugs and their components. More than 70% of Egis' revenue comes from exportation to former Soviet countries and Eastern European countries. The aim of Egis is to develop emerging markets and local areas through a reward system dedicated to local workers joining the company.

Egis promotes an excellent working environment, offering its employees special non-monetary incentives to reward excellent job performance. These non-monetary incentives include flexible work hours, training and a more than pleasant work environment. One of their successes is a persistently pursued policy of equal opportunity for women and men on the workplace. Women represent 58% of the workforce (50% of executive staff, 70% of administrative and technical staff and 45% of skilled workers).

Further, Egis has set up an employee retention plan that is very much customized to local norms. In addition to final incentives to reward performance, Egis also rewards "points" that achieve employees a particular status (e.g., silver or gold) similar to customer retention plans. Such signs of achievement, which are more easily made public in the local culture, allow high achievers to receive the recognition of their peers without the awkwardness of discussing payments received.

From Strategy to Execution:
How Successful Firms Win in Emerging Markets

One of our goals was to dig deeper into the three broad strategic directives that were gleaned from the existing literature on emerging markets to uncover specific examples of how these three broad strategies affect key functions of the firm. The incentive to localize solutions is easy to imagine in product development, but what does it mean to human resources? How does the strategic imperative to build an adaptive distribution and sales model translate into tactical decisions regarding finance? Below we outline tactical take-aways from the 15 case studies organized around five functional areas of the firm.

Product and product development. For a firm's product and product development function, localizing solutions is the most important strategic shift for entering rural markets. We found that to enter rural emerging markets, most successful companies rework products from their existing product portfolio. However, in parallel, they are also likely to have new products for these markets under development, to incorporate knowledge they glean about the market as they gain experience there (Idea Cellular, Nokia, Unilever and Tata in India). Tata designed a four-wheel vehicle from the ground up, engine included, to suit the functional and emotional needs of rural buyers as well as the roads, financing, fuel and service available to India's rural emerging markets. In Africa, Toyota customized their offering to take into account the rugged roads and potential use of low-quality fuel for a successful launch. Idea Cellular, through the knowledge it gained of the Indian rural day-laborer market, was able to create new services (SMS news alerts) and repackage its cellular service in "small talk times," suited perfectly to the markets' needs. In addition to Idea Cellular, we saw Unilever and Coca-Cola designing and (re)packaging for affordability.

With Volkswagon Skoda, we have a vivid example of the perils of relying on an "old" product from a developed market as an entry product in an emerging market. Although rural emerging markets may not be well developed, governments which make regulations in this area are often well aware of the latest environmental and safety standards and may create regulations that ban a firm's older products before they are even launched.

Go-to-market and distribution strategies. In rural markets, getting products into the hands of their customers is a significant and visible challenge for a firm. The geography is vast and the infrastructure is lacking. Coca-Cola, Egis, Idea Cellular, Novartis, Nokia and Unilever all had innovative approaches to addressing GTM and distribution challenges.

We found that companies localize their GTM solutions primarily through two means: taking on channel partners and specializing the sales force. In the firms GE studied, channel partners were used more often than they might be in urban or developed areas because in rural emerging markets, partners are often a more economical solution that provide even greater flexibility. We saw this with Coca-Cola where the distribution centers can choose to address the last-mile delivery option themselves or they can outsource it, but Coca-Cola's relationship is with the entrepreneur established as the MDC. In either case, they provide an economic and productive last-mile delivery mechanism for Coke. We saw a similar solution used by Unilever where village entrepreneurs provided a direct channel to the local population that allows Unilever to reach areas where traditional dealers are unable to go.

Sales forces may be specialized along product lines for deep expertise or around customer needs to better understand the complexity of different customer segments and localize solutions appropriately. Similar to Unilever, P&G trained local village women to sell and had them target other local village women, creating specialization among the sales force while giving them the opportunity for lucrative earnings. Nokia learned that it must compensate its rural and urban sales people differently because the types of products and plans that were possible to sell varied greatly across the two markets. We also found that rural sales force must be far more mobile than an urban sales force, travelling on average 16 days per month compared to one day of travel per month for an urban salesperson.

Other firms kept GTM and distribution tactics distinctly in-house. Nokia invested in direct distribution and service uptake centers (discussed further below); Toyota and Volkswagen both had strict guidelines on filling the distribution channels for service parts as well as initial products.

Service strategy. The three broad strategies we considered all influenced the service function of the firms the team studied. We see that service is just as important in rural emerging markets as it is in developed areas, perhaps even more so because of the lack of networks of outside providers. Our case studies reveal that bringing on a third-party workforce may be a good option to get a service network in place quickly, but that a strong relationship with that third-party is necessary for training, compliance and quality control (Volkswagen Skoda). In some cases, a company-run training center may be necessary to train third party service providers, field engineers, and in some cases, even the customer himself to address first-level service needs (Medela, Toyota).

Creating adaptive distribution systems means not just ensuring product availability but service availability as well and in some cases, a network of spare parts. Both Toyota in Africa and Volkswagen Skoda in Eastern Europe invested heavily (both financially and in terms of relationships) to ensure (indeed, to force) the presence of spare parts throughout their regions. In some cases, we learned that firms insisted on the delivery of a first-level parts kit with each new product purchase. In other cases, we found firms providing free tools and training to rural mechanics (Tata Motors for its ACE truck in India) and investing heavily in call centers and toll free numbers with trained staff for rapid service delivery (Whirlpool in Eastern Europe).

Nokia took another route. Instead of outsourcing service to a third party, Nokia opted to invest in over 200 collection centers in rural areas that would send devices to a central repair facility. Nokia viewed this as an important key to their success in these markets.

In all cases, the firms realized that service needs are as urgent and critical in rural emerging markets as they are in developed markets. To deliver an acceptable level of service in such challenging environments (geographically dispersed without a well-developed infrastructure) requires localization of the service, an adaptive distribution system that fits the unique demands of the environment, and strong relationships with customers and with any third party providers of the service itself.

Financing solutions. Conclusions in finance cluster around end-customer relationships and dealer relationships. Although “cash is king” in rural markets, third-party finance companies do exist that can be leveraged to provide credit to end customers, either through letters of credit or guarantee or by connecting customers and partners to microfinance solutions. By localizing the solution and focusing on the relationships they have developed, both Nokia and Novartis in India have come to rely on micro-financing institutions to make their products purchasable by either their end customer (Nokia) or by their distribution chain (e.g., doctors using Novartis products). Nokia’s goal in emerging markets is to transact 100% in cash; minimal credit is given today. Coca-Cola, on the other hand, offers financing to those who are selected to join its MDC system. It loans anywhere from $3,000 to $8,000 to the distributor if there is a compelling reason to do so, but the firm also relies on microfinance institutions to fund when or where it cannot.

Adaptive distribution networks in financing solutions means that when firms offer credit across these vast rural landscapes, they must also have an effective collections network. In relationships with dealers or distributors, sharing risk may be necessary to establish a distributor partnership.

Human resource and talent management. Methods of engaging employees and the meaning of rewards depend greatly on the fit with local culture for success. Localizing the solution in this functional area is essential to making employees feel engaged and rewarded rather than confused or demotivated. Egis found that monetary rewards were welcome, but non-monetary rewards and indicators of status were also very important. Also, while developing a new business, employees may need to be incentivized to take specific intermediary actions rather than on final outcomes. For instance, Johnson and Johnson found that using incentive metrics such as number of customer visits was effective in achieving the behavior they believed would lead to greater sales; Manpower in Eastern Europe used specific incentives to achieve the level of teamwork they felt was required for success. Volkswagen Skoda has gone as far as founding "Skoda Auto University" in the Czech Republic to attract and retain future leaders.

Finally, several firms discussed the growing importance of having employees worldwide take on special assignments of six months or even longer in rural emerging markets to provide first-hand experiences of the challenges there (Unilever). This can help develop future leaders with more global and rural exposure and an appreciation for the challenges faced in markets that hold the key to their firm's future.

Conclusion

As more firms look to emerging markets for growth, competition there will undoubtedly increase and a well-considered approach to these markets will become even more important for success. Rural areas of emerging markets represent the next frontier for growth, but they require unique approaches. Through this study of firms, using a process developed by GE, we found that firms have succeeded by adapting not just their marketing strategies, but their entire business strategies, looking for opportunities to better understand these potential customers and to adapt accordingly across all elements of the value chain.

Our process involved teams of cross-functional GE executives interacting with a variety of managers at 15 firms that had demonstrated success in rural emerging markets. The GE team gathered these case studies through interviews with company employees and through secondary sources, and then met to synthesize the data across all companies and functional areas to assess common factors that contributed to winning in rural markets. We present the process in detail in hopes that its use with adaptation can help other firms learn from our experience.

Our findings support three key strategies recommended by previous research, but our case studies take these strategies a step further, by illustrating how these three strategies are implemented by successful firms in rural emerging markets across five functional areas.

These factors are summarized in Figure 3 and below.

----- Insert Figure 3 around here -----

- **Localize solutions.** Localization isn't just about products, it also includes service (what service is offered, how it is offered and the reliability with which it can be delivered), pricing, packaging and financing as well as HR and talent management. Each of these must be customized to suit the needs and affordability of customers and employees in rural emerging markets.
- **Create adaptive distribution systems and "go to market" solutions.** Developing effective local distribution systems means far more than moving goods. In many cases, the best way to adapt is to invest in local partners who can help the firm "go local." These partners not only provide the means by which to reach the market; they can be the firm's ambassador and guide to local tastes and norms. Likewise, sales structures need to be flexible to meet local needs for organization, specialization and recognition. And in many markets, what MNCs bring is

completely new; awareness and education may be as important as physical availability.

- **Build trusting relationships with all stakeholders.** People are the communication channel in rural emerging markets. Customers and employees will be a firm's key conduit for reaching the masses, as word-of-mouth is not only more trusted, but often the only mechanism available. In addition, many emerging markets are still strongly shaped by government and NGO forces. All of these factors mean that building strong relationships with people, often one at a time, will be critical to success going forward.

The growth and eventual preeminence of emerging markets over current developed markets have the potential to disrupt accepted approaches to all functions of a business. We believe MNCs have much to offer in terms of products and services that can enhance the quality of life that is lived in these markets – and in particular, rural areas of these markets – but to create value for these customers, firms must adapt. For those that do adapt, rural emerging markets can be a source of revenue and profit, providing growth for decades to come.

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[3] Researchers at McKinsey propose that the number of consumers in the "consuming class" (making more than $10 per day, income sufficient to make discretionary purchases) has doubled from one billion people in 2010 to 2.4 billion people today and by 2025, will double again, to 4.2 billion, for the first time outnumbering those who struggle to meet their most basic needs. The spending power of this consuming class is expected to increase from $10 trillion 2010 to $30 trillion in 2025, accounting for nearly 50% of the world's total. Yuval Atsmon, Peter Child, Dobbs, and Laxman Narasimhan, "Winning the $30 trillion decathlon: Going for gold in emerging markets," *McKinsey Quarterly*, (August 2012): 1-18.
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TABLE 1

Overview of Companies Studied in the GE Approach

Company	Case Study Challenge	Region	Key take away
Coca-Cola	Building micro-distribution centers	Africa	Become integral part of community in which you do business
Egis Pharmaceutical	Distributing pharmaceuticals	Eastern Europe	Direct GTM model maximizing local structures
GE C&I	Developing consumer products	Eastern Europe	Be careful which product you sell into rural market
Idea Cellular	Customizing mobile telephony services	India	Distribution network has been key to success
J&J Medical	Marketing healthcare and medical supplies	Eastern Europe	Cheaper version of existing products for rural market
Manpower	Creating workforce solutions for follow-on rural market entrants	Eastern Europe	Leverage urban customer & managers in rural markets
Medela	Educating on breastpumps and breastfeeding accessories	China	Preventive field engineer visits regardless of incidents to build relationship
Nokia	Marketing mobile telephony services	India	Target marketing to grow overall mobile adoption
Novartis	Marketing pharmaceuticals	India	Drive rural healthcare awareness and financing solutions
P&G	Distributing feminine care products	Africa	Leverage social responsibility programs for brand and profit
Tata Motors CV	Developing a last-mile transportation vehicle	India	New market creation to product/distribution innovation
Toyota	Marketing vehicles, spare parts and service	Africa	Competitive advantage in spare parts due to logistics
Unilever	Targeting BoP consumers with health-related products	India	Understanding of unique needs of the market
Volkswagen/Skoda	Customizing vehicles, spare parts and service	Eastern Europe	Localization on entire value chain
Whirpool	Manufacturing, marketing and servicing home appliances	Eastern Europe	Leverage 3rd parties to gain local knowledge

Table 2
Sample Items from Interview Guide

<table>
<tr>
<td>Product and Product Development</td>
<td>Product

• What products are available and specific to rural market segments?
• What media was used to transmit marketing information to potential buyers? (Radio, TV, print ads, newspaper, magazines, word of mouth, give aways)
• Was there a need to develop a specific product for rural markets and why? What were the needs to be addressed?
• Was the product something that the rural market had never experienced? If so how was a baseline of understanding established in the market?
• Was the profit margin lower or higher than similar products in other parts of the world?

Product Development

• Were new technologies developed or employed to meet the rural market product needs?
• Were different materials employed to reduce costs?
• Did any rural environmental factors have to be considered for change of the product for any of distribution, storage, or usage of the product?
• How is your product delivered into the rural market?
• Is your product stored in the rural market?</td>
</tr>
<tr>
<td>Go-to-market and Distribution Strategies</td>
<td>Channel Partner Strategy

• Summary of Current Channel Partners (VAR, Distributors, Contract Sales, etc.)
• Channel Selection process and Criteria

Customer Needs Segmentation

• Customer Needs Segmentation Process
    o Segmentation Criteria (e.g., buying process and/or need)
    o Describe sales force alignment for customer segment
    o Prioritization of customer segmentation

Sales Force Specialization

• Degree of specialization for sales force:
    o Market – Service Line
    o Product – Technology
    o Activity – Inside Sales, Tele Sales, etc…
• Reasons for specialization</td>
</tr>
</table>

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- Measurement/metrics around effectiveness/efficiency

Sales Force Sizing

- Describe sales force sizing process – timeline and process for implementation
- Is there one model that is applied by country or does it vary by local market/demands?

Strengths and Opportunities

- Strengths of sales distribution strategy
- Greatest opportunities in sales distribution strategy
- Greatest challenges in your sales distribution strategy

</td></tr>
<tr><td>Service Strategy</td><td>

Repair Strategy

- Who repairs the equipment?
(company Service Engineer or Local 3rd party/service dealer or Customer staff)
- Who delivers application training and support?

Spare Parts Strategy

- Is there a local warehouse for parts stock?
- Is there a local repair center?
- What is the logistics associated to parts delivery?

Remote Support Strategy

- How the customer is calling support? Any call centre? Or calling directly the local engineer?
- Is there a hot line in place? What type and how does it work?
- If the equipment is computerized, is there a remote connection to systems & what is the technology used (VPN, 3G, …)?

Service Offerings Strategy

- How long is the warranty coverage (1 yr, 2 yrs, …)?
- Do you propose Service contracts? What are the terms and conditions?
- Is Service activity delivering revenue?

</td></tr>
</table>

<table>
<tr><td>Financing Solutions</td><td>Direct to Customer
What area the company’s standard billing terms?
Does the company offer customer credit? If so, how does the company evaluate credit?
Does the company offer long term payment options? Leasing/ sales finance, etc.?
Does the company offer rentals or fee per use programs? If so please describe
Does the company do any partnering with local banks? If so, what financing programs are offered through 3rd parties to customers?
How does the company manage credit card/smart cards payments?
Does the company accept cash sales? If so, how does it manage and control
Dealer Interactions
Do you offer payment terms to dealers?
What other revolving and installment credit option does the companies’ dealers offer?</td></tr>
<tr><td>HR and Talent Management</td><td>Staffing
How do you deploy your employees to develop your business in the rural market? Please choose one of the followings:
Hiring employees in the rural areas
Sending employees from the urban areas to visit customers regularly.
Using distributor channels.
What sources do you use for recruiting rural talent? E.g. local recruiting agencies, local labour authority, local news paper etc.
Do you use a job profile when recruiting rural talents? How is it developed? Is it effective?
Attracting
What are the key 3 factors out of the following to attract talents in the recruiting market for rural business? Please also rank the selected 3 factors in order.
Compensation & Benefits
Career development opportunities
Functional skill development opportunity
Company brand / reputation (please specify ... overall, product or something else)
Company market position
Company growth opportunity
Company market position
Job contents</td></tr>
</table>

	o Job / Position size o Frequency of business travel o Location o Work life balance o Others (please specify) • What specific actions do you take to attract talents for rural business for the above chosen 3 factors? • Any unique approach to attract talents for rural business compared to your recruitment practices for urban business? **Retention and Engagement** • What are the key 3 areas out of the followings to retain / engage your talents for rural market business? Please also rank the selected 3 areas in order. o (Same list as above) • What specific actions do you take to retain / engage your talents for rural business for the above chosen 3 areas? **Compensation and Benefits Strategy** • What specific C&B actions do you take to attract / retain your rural talents and develop your rural business? (e.g. Special travel allowance, Special incentive plans etc) • What is the target pay for Sales Rep and Service Engineer? What is the balance of base salary vs. incentives? **Training and Development Strategy** • How do you train and develop your rural talents for their technical skills (product knowledge, sales/service functional skills, leadership skills etc)? • Is there a standard career path for Sales Rep and Service Engineer? What is it?

Figure 1 – The Structure of Project Teams

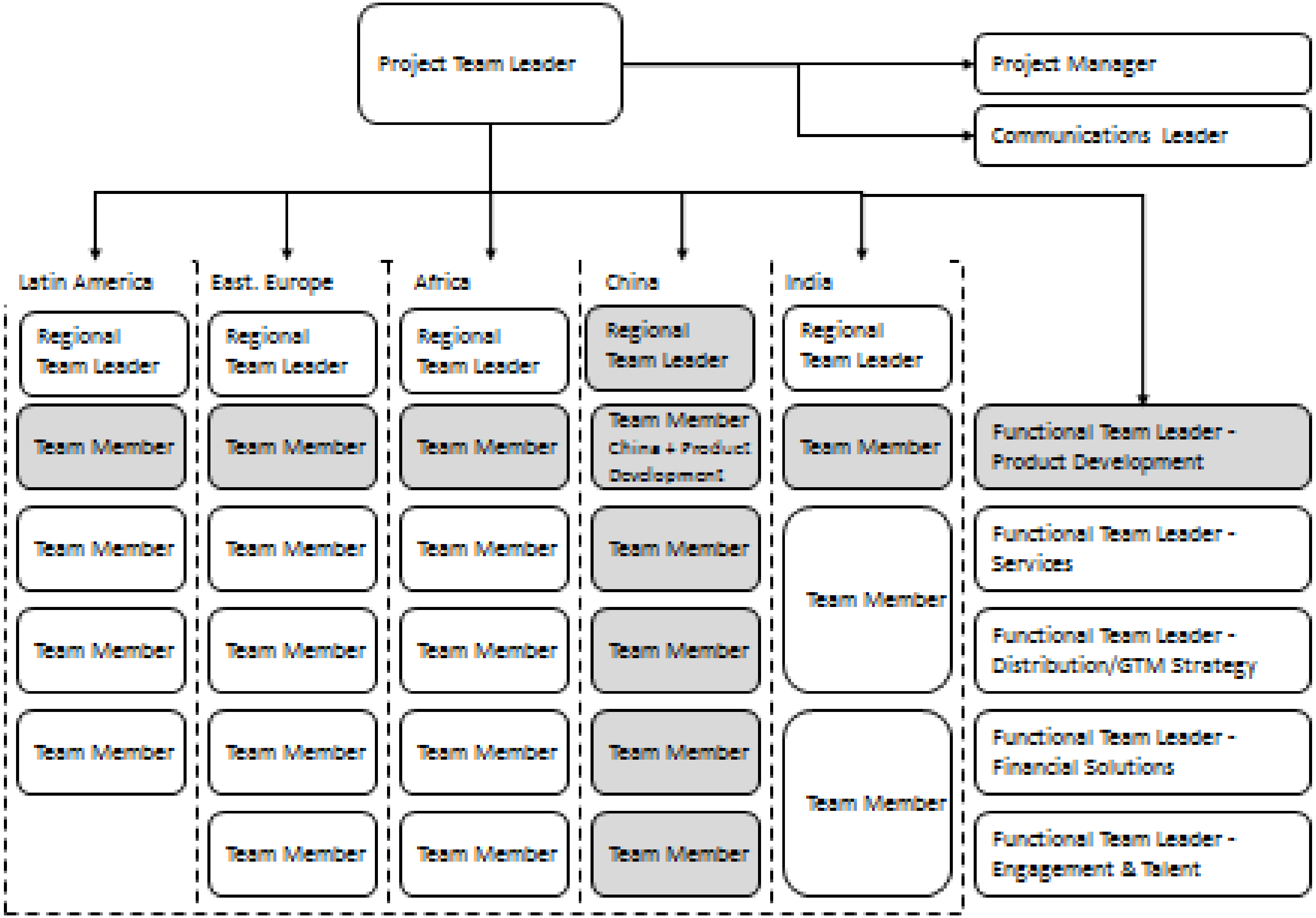

Figure 2 – The GE Approach
Winning in Rural Emerging Markets

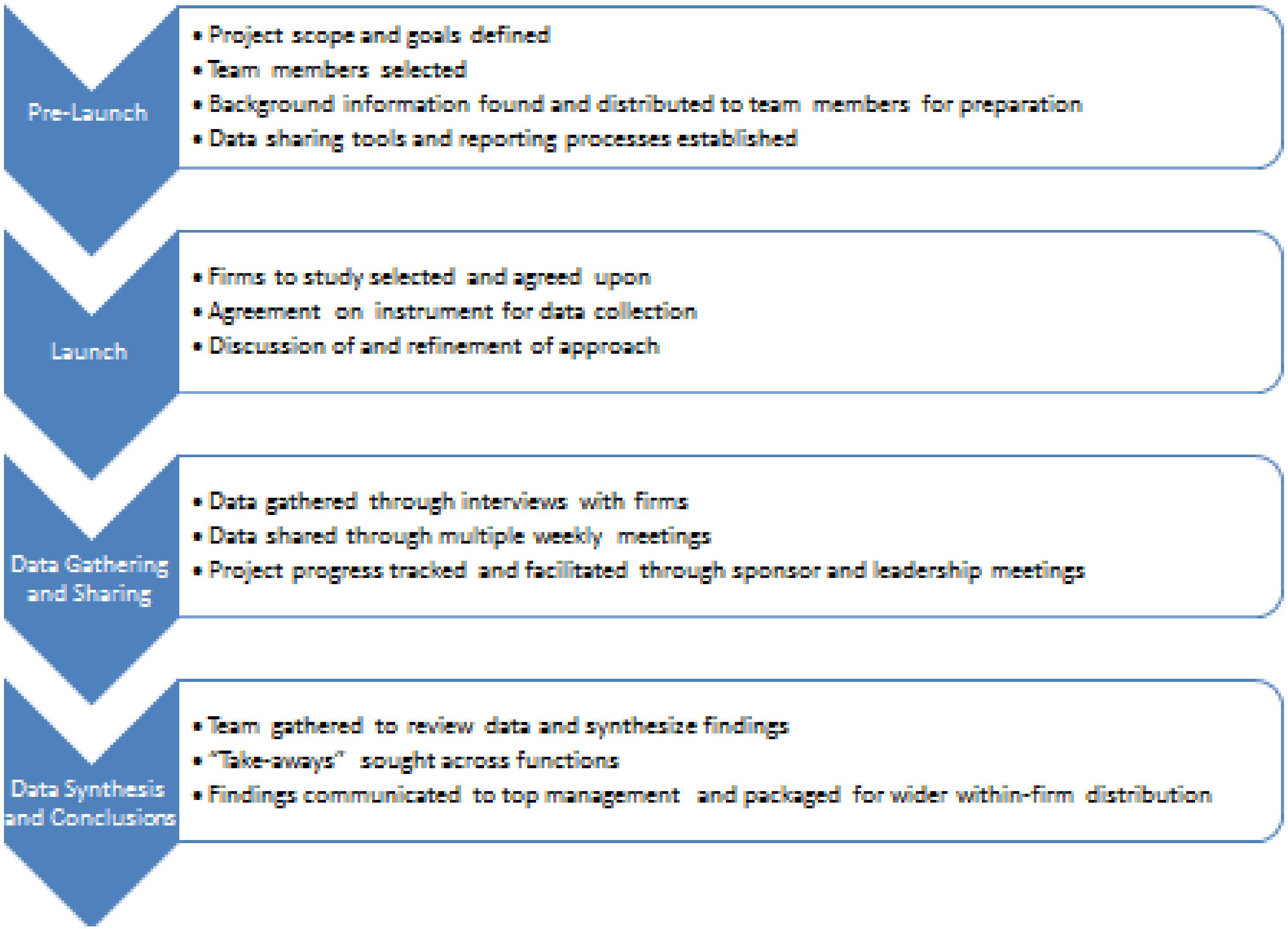

Figure 3 – Winning in Rural Emerging Markets