Management for Professionals

Niklas Schaffmeister

Brand Building and Marketing in Key Emerging Markets

A Practitioner's Guide to Successful Brand Growth in China, India, Russia and Brazil

Springer

Management for Professionals

More information about this series at
http://www.springer.com/series/10101

Niklas Schaffmeister

Brand Building and Marketing in Key Emerging Markets

A Practitioner's Guide to Successful Brand Growth in China, India, Russia and Brazil

Springer

Niklas Schaffmeister
globeone – Strategy • Brand • Communication GmbH
Cologne
Germany

ISSN 2192-8096 ISSN 2192-810X (electronic)
Management for Professionals
ISBN 978-3-319-19481-3 ISBN 978-3-319-19482-0 (eBook)
DOI 10.1007/978-3-319-19482-0

Library of Congress Control Number: 2015949817

Springer Cham Heidelberg New York Dordrecht London

Printed on acid-free paper

Springer International Publishing AG Switzerland is part of Springer Science+Business Media (www.springer.com)

This book is dedicated to Elmar Schaffmeister (June 10, 1944–April 28, 2013)—a great father and exceptional improvisational saxophonist who left this planet far too early

Foreword

> **Culture eats strategy for breakfast**
> *Quote is attributed to the great Austrian-American economist Peter Drucker*

The financial crisis of 2008–2009, the worst crisis since the Great Depression of 1929, and the ensuing global recession marked a turning point in the way people viewed the world. While the "advanced economies" had dominated the global economic production since the industrial revolution, and the so-called "emerging" and "developing" economies had lagged behind, the financial crisis managed to completely overturn this relationship. IMF analysis found that while the advanced economies accounted for only 31 % of global GDP growth, the emerging and developing economies accounted for 69 % of global growth from 2007 to 2014.

During the crisis, Western companies began seeking alternative sources of growth. Many looked beyond the USA and Europe and doubled up on their efforts in emerging markets. This drove demand for professional consulting on how to implement a BRIC-oriented brand expansion strategy. Niklas Schaffmeister's book aims to enhance the reader's understanding of successful marketing and brand-building in the large transitional economies.

Today, some observers seem dubious about the future of certain BRICs; the "IC" clearly is more powerful than the "BR." While China's economy is still delivering robust growth, and India is getting ready for a major comeback, the prospects of the Russian economy appear much less positive. While Russia was still one of the "hot bets" in 2013, the military conflict with Ukraine has turned many observers critical about the economic outlook of Russia. Yet Jim O'Neill, who coined the term BRICs, remains positive about the overall prospects of the BRIC club. He told German business and financial daily *Handelsblatt* in January 2015, "The trend stays: That is the rise of these four nations relative to the rest of the world. Some observers are simply confusing a trend with an economic cycle." Overall, O'Neill believes that Brazil, Russia, India, and China will jointly overtake the USA in economic power within the next 2 years. India in particular seems to be on the right track, with reforms initiated by its newly elected Prime Minister, Narendra Modi. "[Reforms] together with the low oil price and its young population could enable India to grow stronger than China in the future," says O'Neill. However, he also agrees that the relative importance of China and India is much bigger nowadays.

Since 2010, China's economy has grown almost 50 % and India's about 30 %. In Russia and Brazil, growth rates were just 10 % and 8 %, respectively, largely because of the falling price of raw materials.

Still, most long-term trends remain intact. Urbanization, better education, younger labor forces, and rising consumption in Tier 2 and Tier 3 cities as well as the vast rural hinterlands are setting up these continent-like countries for many more years of growth. Significant room to grow in the dynamic middle-income segments is only one reason to intensify international expansion with a focus on the BRICs. The other key reason is the accelerated overseas expansion of a rising number of new champions from countries like China or India, which have gone on a buying spree in Europe and the USA. Western companies need to learn how to compete with these new juggernauts on their home turfs, before being attacked in their own premium markets only a few years down the road. Global consumer electronics giants like Samsung and Sony are already feeling the pressure of Chinese brands like Lenovo and Xiaomi, and the global automotive press has started to speculate whether Jaguar (now owned by India's Tata Motors) can challenge BMW.

This book is not intended to argue in favor of the BRICs or any other combination of smaller growth markets such as the MINT countries (Mexico, Indonesia, Nigeria, and Turkey) as the economic cycles simply move too fast to predict winners, and countries will always experience ups and downs. Rather, the aim of this book is to promote understanding of transitional markets in general and to illuminate the features that characterize them and the unique challenges that marketers commonly encounter when planning and implementing brand development strategies.

Whether you believe that Russia will recover from its current crisis, or that Brazil will benefit from the Olympic Games in 2016, this book has much to offer. The 25 strategies outlined in Part III form the heart of successful marketing in transitional markets. Many of the impact factors and resulting implications are not unique to the BRICs; they are worth considering in any other growth market. This is especially true for the first five chapters of the strategy section, which outline the most important steps in defining your growth strategy and related market positioning. They work in any context where brands cross borders.

This book will also help to enrich understanding of, and sensitivity to, cultural traits and related motivations for consumption. We firmly believe that "culture eats strategy for breakfast," as we have seen way too many misguided international marketing efforts which made the dangerous assumption that a single global approach would work in every market and that consumers would eventually get used to the offering. This might be true occasionally, but it goes awry more often than not.

It might be reasonable to ignore local needs formed on the basis of traditional culture—but only if your target markets are of marginal relevance. However, when brands like Volkswagen sell every third vehicle in China and earn about 50 % of their profits there, it would be extremely dangerous to not to be sensitive to local tastes and preferences. As a senior executive of Omnicom Group, one of the world's leading advertising and communication groups, I can say that our agencies passionately believe and are experts in the power of locally relevant communication. The best joke is pointless, if it is lost in translation…

Do brands even matter in emerging markets? We firmly believe they do. Unlike technology or products that can be reverse-engineered and copied, a premium brand is one of those rare competitive advantages that cannot be easily copied. It just takes time and investment to establish a brand in the hearts and minds of new target groups.

This book—the first such analysis of the BRIC countries from a brand and marketing point of view—is based on 15 years of hands-on strategy and marketing consulting experience in various industries. The strategies, frameworks, and principles outlined here will allow you to think more strategically about building your brand where it matters most. The ***Country Profile*** chapters on China, India, Brazil, and Russia will familiarize you with the main aspects of local socio-economics, income segments, cultural backgrounds, media environments, and purchasing motifs—the "software" needed to thrive in each specific market. Reading these chapters conveys the necessary background needed to reprogram your brands and to optimize their performance abroad—without contradicting their basic global values.

The chapter on ***Commonalities and Differences*** highlights the fact that beyond all the cultural complexities, there are actually many similarities among the big emerging markets. The section on ***The New Paradigm*** explains the key principles and steps toward a growth market-centered "one world strategy" for brand expansion. It also highlights the immense importance of the country-of-origin (COO) factor in marketing to a completely new set of aspiring and status-hungry consumers (who are willing to pay a premium for quality and emotional benefits). The comprehensive ***Strategy Chapter***, the main part of the book, describes 25 key approaches that help you, not only gain significant market share, but also win customers who stay loyal to "their" brands even as they migrate to yours.

Key considerations are analyzed and solutions offered with dozens of specific answers to tough questions, such as: What are the best strategies for entering BRIC markets and positioning international brands to appeal to diverse cultures? Which are the growth drivers and consumption patterns of the new members of the emerging middle class? What does a market-driven strategy that combines the global brand positioning with clever local adjustments look like? The book is filled with examples of successful strategies and is an indispensable guide for every executive responsible for making far-sighted marketing and branding decisions in the world's most exciting markets.

New York, NY
March 2015

Serge Dumont

Preface

There is a rising interest among Western corporations in the large emerging markets due to their growing economic prominence and consumer purchasing power. However, despite this rising importance and the acknowledgement of the high cultural, social, and economic complexity of these markets, there is only very limited literature that takes a systematic view at the similarities and differences of these markets from a marketing and communications point of view. Therefore, this book significantly contributes to filling this gap, as it combines 15 years of experience in brand building and marketing strategy development in the BRICs.

It will give a detailed outline of each of the four original BRIC markets, including the overall historical and cultural roots, economic developments, demographic segments, and geographic specifics, and most importantly it should help to develop sensitivities regarding the predominant cultural values. On this basis, some of the major paradigm shifts that are taking place are explained, such as the development of "one world strategies" with emerging markets at the center or the increasing acknowledgement of local specifics and tastes versus the globally standardized approach that was favored in the 1980s and 1990s. All this leads to increasing "glocalization" and smart adjustment strategies for brands in many segments. In a most extreme case, this can even lead to a modularization of brands below the level of the globally uniform corporate brand umbrella.

This book analyzes the common patterns across these large emerging markets while acknowledging the plethora of differences at various levels. However, it does not stop at a just descriptive analysis of specific cases. The strategy chapter provides an outline of 25 major approaches and strategies frequently spotted in emerging markets as answers to general challenges that marketers and brand managers are facing there. Based on the observations in the country chapters, strategies that are applicable across the BRICs in many contexts will be developed. Specific process knowledge will be given regarding how to decide on a more foreign versus a more localized positioning. And most prominently, the development of truly "**market-driven positioning**" will be pushed forward, as this is the key to sustainable success in many contexts. Within the process of market-driven positioning, systematic adjustment of the brand positioning, as well as the product and service offering of a corporation, should be developed in a way that market acceptance and sales potential are optimized without weakening the global brand promise. All this knowledge is based on real business observations, professional insights, and scientific data rather than on a purely theoretical perspective. It will help to guide marketing and communications managers to think strategically beyond the needs, wants, and rules of those markets they are most familiar with.

This book was supported greatly by many people and in many ways. A project of this scope is impossible to complete without having great friends and supporters. First of all, I want to thank my wife, Zhe, who always helped me with her usual joyfulness and serenity.

My team of colleagues at globeone also contributed greatly to this project, particularly by giving me the time needed to work on the contents without extreme delays. Carina Hauswald, my co-managing director, helped a great deal by assuming management responsibilities and thus creating enough flexibility for me to write this book on top of our fully loaded consulting agendas. In China, my colleagues Tatjana Martens-Pearce, Na Tang, and Philipp Dittes provided thoughts and insights, as did Ana-Helena Szasz-Barone for Brazil and Tina-Marie Monelyon for India. I also need to thank Markus Gärtner, who provided helpful support in the final editing of the manuscript.

I wish to thank Serge Dumont, Vice Chairman of Omnicom Group, for giving helpful advice and contributing the foreword to this book. I must also sincerely thank Dr. Evemarie Wolf for the encouragement to conclude this project, as well as Hedda Schaffmeister for accepting the painful assignment of reviewing and formatting the notes and citations of all chapters. At Springer publishing, Dr. Prashanth Mahagaonkar, Dhayanidhi Karunanidhi and Venkatachalam Anand proved to be very experienced and supportive advisors on this project.

Among the many other people who have contributed, I want to thank the following: Florian Haller, Christiane Wolff, Markus Noder, and Julia Becker at Serviceplan Group. They were very helpful in developing ideas for this book and generously providing content for many of the case studies. I am also grateful to the BMW Group and Volkswagen Group, as well as Georg Warga from Goodstein Partners and Carsten Greiner from INTERONE Beijing, for their support and the opportunity to refer to compelling projects such as BMW's 7 Series Brand Heritage Campaign and the Volkswagen People's Car Project. At the specialty chemicals Group LANXESS, I need to thank Christiane Müller and Terri Fitzpatrick for their trustful cooperation and the contribution of a cross-BRIC case study.

Lastly, a special thanks to Jan Runau and Sabrina Cheung (Adidas Group), Oliver Wolter (Volkswagen Group China), Alexei Orlov (RAPP), Jochen Goller (MINI), Petra Schwaiger, Sabine Russ and Justin Dee (BMW Group), Kristin Harder (FAW-Audi), Steffen Kuschel (Volkswagen AG), Susan Krambo (Armacell), Claudia Woelfle and Kay Koester (Creative Agency Yeswecando), Christine Zierott (Porsche), Rene Co (Procter & Gamble), Lars Zeppenfeld (Mercedes-Benz), Dayna Hart (General Motors China), Bernd Haack (Lada), Kim Palmer (Land Rover), Wang Feng, Anna Lu & Alex Qi (Linglong Tire), Kathi Guethoff & Roger Strack (Serviceplan China), Tzekiat Tan (BBDO), Marc

Trautmann (Trautmann Photography & CGI), Oliver Sebel (FAZ) Frederic Bourcy (Metro), as well as Sabrina Würth, Sarah Rauch, Ariane Sketcher, Liying Zeng, Sebastian Hepp, Kristin Werner, Hanna Rohloff, Lena Ink, Denise Zhang, Sarah-Lena Hüll, Sarah Ulcyfer, Deanna Burke-Courage and Julia Neumann (all at globeone).

Cologne, Germany Niklas Schaffmeister
March 2015

Endorsements

"To succeed globally in the future you need to understand the BRIC countries, both their commonalities and differences. This book provides the depth of knowledge you need and offers fresh perspectives and conceptual frameworks to address the challenges of building successful brands in this complex, dynamic area"
David Aaker, Vice-Chairman, Prophet
Author: Aaker on Branding

"While some of the featured strategies are against conventional marketing wisdom, this book closes a major gap as it features the 25 most important strategies you should have heard of when you are trying to position your brand in the markets of tomorrow"
Jan Runau, Chief Corporate Communication Officer, Adidas

"From a Chinese and professional perspective, this book genuinely covers the main factors of brand development and

marketing strategy that foreign brands have to be aware of. It is based on scientific research as well as practical experience across a wide variety of industries. If more managers would carefully consider the success factors and strategies outlined in this book, many foreign corporations would be much more successful in the BRIC Markets"
Prof. Dr. Jun Ma, Chief Professor at the Automotive Marketing Faculty, Vice Dean of the School of Automotive Studies at Tongji University, Shanghai

"This book combines deep knowledge of BRIC markets and brand management into 25 strategic approaches to brand growth in emerging markets. It provides a substantive contribution to our understanding of major branding challenges and strategic approaches in these markets"
Prof. Dr. Franziska Völckner, Marketing Department, University of Cologne

"This is a great book for the marketing practitioner, joyful to read. It provides great insights for the newly assigned expatriate as well as the experienced brand manager—just to reflect and see if the relevant strategies have been applied"
Oliver Wolter, Senior Manager, Volkswagen Brand Marketing at Volkswagen Group China

Contents

Part I

New Forces in Global Marketing

Introduction

1

The rise of large emerging markets is the defining economic story since the change of the millenium. It is more fundamental, rapid and far-reaching than anything else before it in commercial history, including the Industrial Revolution. Britain was the birthplace of the revolution. Driven by steam engines, cotton mills and iron making, it took the country 150 years to double its economic output and that was after production started to accelerate during the latter half of the eighteenth century. By comparison, China doubled its economy every decade after it started the reforms of the late 1970s, and while Britain began industrializing with a population of roughly ten million people, China took off with one billion inhabitants. No wonder the global balance of economic power is rapidly shifting away from Western economies. The current revolution is taking place at 15 times the speed and at 100 times the scale of what happened in Britain after 1750.

Meanwhile, consumers and markets in Europe and America are still licking their wounds from the global financial crisis that started in 2008. Most economies in Western Europe are more than likely to face slugish growth for several years to come. And according to the Pew Research Center in Washington, the U.S. middle class has just suffered its "worst decade in modern history." The median household income declined by a total of 8 % from where it was before the financial crisis, after accounting for inflation, according to numbers released by the U.S. Census Bureau in September 2014. The consequences are dire: Plunging wealth and declining standards of living in their home markets have forced forward-looking managers of leading international companies to set their sights more than ever on emerging markets like the BRICS (Brazil, Russia, India, China, and, by some reckoning, South Africa) and other growth markets to make sure their ambitious long-term expansion plans do not become obsolete.

Managers definately need to focus on these markets according to HSBC bank's "Global Research." If the bank's forecast is right, emerging markets' contribution to global growth to 2040 will be twice as large as that of the advanced world. In line with the change in contribution to growth, the economic world order is changing and especially China and India are expected to climb to the top spots in the rankings

N. Schaffmeister, *Brand Building and Marketing in Key Emerging Markets*,
Management for Professionals, DOI 10.1007/978-3-319-19482-0_1

Order in 1970		Order in 2010		Projected order in 2050	
1	USA	1	USA	1	China
2	Japan	2	Japan	2	USA
3	Germany	3	China	3	India
4	UK	4	Germany	4	Japan
5	France	5	UK	5	Germany
6	Italy	6	France	6	UK
7	Canada	7	Italy	7	Brazil
8	Spain	8	India	8	Mexico
9	Brazil	9	Brazil	9	France
10	Mexico	10	Canada	10	Canada
11	Netherlands	11	S. Korea	11	Italy
12	Australia	12	Spain	12	Turkey
13	Switzerland	13	Mexico	13	S. Korea
14	Argentina	14	Australia	14	Spain
15	Sweden	15	Netherlands	15	Russia
16	India	16	Argentina	16	Indonesia
17	Belgium	17	Russia	17	Australia
18	China	18	Turkey	18	Argentina
19	Austria	19	Sweden	19	Egypt
20	Denmark	20	Switzerland	20	Malaysia

Fig. 1.1 China, India and Brazil moving up in the economic rankings. *Source:* World Bank, HSBC Global Research, 2011

(see Fig. 1.1). Experts at McKinsey expect that by 2025, annual consumption in emerging markets will have risen to $30 trillion, from $12 trillion in 2012.

In addition, there is much speculation as to when China will finally overtake the U.S. in terms of GDP. In October 2014, the International Monetary Fund (IMF) announced that China's GDP, when measured by purchasing power parity (PPP), surpassed that of the U.S. to become the world's largest. This is a significant milestone in China's evolution to a global economic power after the U.S. has occupied the top slot in this measure since 1872 (Schiavenza 2014). When looking at the GDP in terms of current dollars at market exchange rates, the U.S. is still clearly in the lead as the biggest economy. However, it is only a question of time as to when China will also challenge the U.S. in this most prominent dimension. According to the latest estimations from August 2014 shown in Fig. 1.2, the experts from the Economist see 2021 as the year of China's re-emergence as the world's biggest economy (Economist 2014).

Leading Western brands, among them Germany's Adidas, America's Ralph Lauren, Swiss luxury watchmaker Hublot and French retail giant Carrefour, are identifying additional long-term business opportunities in the BRICs to lift their prospects amid limited demand at home. Adidas runs about 8000 single-brand franchise stores in China, adding an additional 500 every year. Ralph Lauren plans to open 60 additional stores in Greater China within the next 3 years. Hublot already exports 40 % of its produce to the People's Republic. Hublot CEO

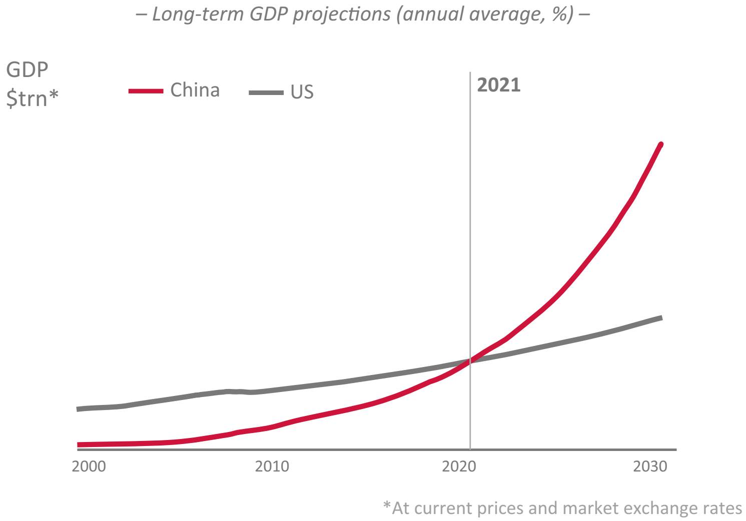


Fig. 1.2 Latest projection: China likely to overtake the U.S. in terms of GDP at current prices and market exchange rates around 2021. *Source:* Economist, 2014

Jean-Claude Biver, who hopes for a "hundred years of growth" in the Middle Kingdom, describes his strategy for China with these words: "There is only one way to catch up, that is to make more noise than others. To make more noise, you need more investment."

Even with slower growth going forward, China, India, Brazil and other growth markets will be the markets where global growth can be generated, new trends and megabrands developed, and new international standards established. Since South Africa joined the political BRIC circle in 2011 as the fifth member, it is becoming clearer that the group is morphing into a non-Western bloc. South Africa, in most economic terms, is not large enough to sit naturally alongside the other members. This is why, in this book, our analysis will focus on the original four BRIC countries.

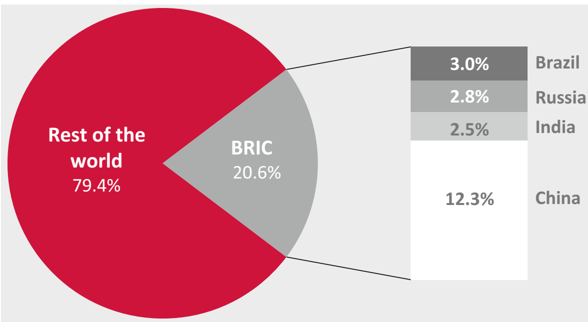
The BRIC countries are already driving global motorization, urbanization, the commercialization of the Internet, global R&D spending and the transaction volume of worldwide commercial real estate. All four initial BRIC countries are showing rapid progress in telecommunications, particularly in mobile and Internet. Even with slowing growth rates, China and the other large developing markets have become the world's top importers as of 2012. However, growth rates have recently slowed down, especially in Russia, which had become one of the fastest-growing new-car markets in the world before Western sanctions, a tumbling ruble and falling oil prices put heavy pressure on the country's economy. Projections from 2013 had indicated that Russia might be the largest car market in Europe by 2016, but by late 2014 sales of new cars in Russia had declined by more than 25 % year over year, according to the Association of European Businesses.

Still, there is ample proof of the emergence of the middle class in the BRICs as the world's new shopping superpower. According to the Credit Suisse "Global Wealth Report 2014", China is now the fourth wealthiest region in the world. Its middle class has doubled since 2000, and it accounts for one third of the world's total population. Nevertheless it is not only consumers catching up with their Western counterparts, China is also making heavy inroads in the annual ranking of the world's largest manufacturers. Despite the slowing expansion of China's economy, China's Sinopec advanced to the top spot of the "2014 Industry Week (IW) 1000", edging out its British and American rivals, Royal Dutch Shell and Exxon Mobil. Sinopec's revenue has more than doubled in the 5 years leading up to 2014. In the 2014 IW ranking, Chinese manufacturers as a group—supported by nine newcomers on the list—ranked only below the U.S. and Japan, but with an annual earnings increase of 7 %.

These companies can grow exceptionally fast because of a rapidly increasing middle class is creating the necessary demand. The economic rise of the BRICs is also expanding the ranks of the superrich. Thanks to a flood of new millionaires in India and China, Asia surpassed North America in the World Wealth Report in 2012 for the first time. The critical mass for this global economic changing of the guards has already been created. The most passenger vehicles are now sold in the People's Republic. China, India, Russia and Brazil—in that order—are among the top ten countries with the largest foreign exchange reserves. China is now the world's biggest exporter, the biggest consumer of energy, the holder of the largest foreign exchange reserves and the leading international holder of U.S. Treasuries.

With 43 % of the global population, the BRIC countries already contributed 21 % to the world's GDP in 2013 (see Fig. 1.3). The informal group accounts for 25 % of the planet's inhabitable surface and half of its foreign exchange and gold reserves. The BRICs attract more than one-tenth of the world's foreign direct investment, although it could be much more. The top 100 companies headquartered in the developed world generate only one out of six dollars of their global revenues from emerging markets, while these markets already account for more than one third of global GDP. This confirms one of the key findings in our 2011 survey on the image of foreign brands in the BRIC markets: There is significant strength and

Fig. 1.3 Contribution of the BRIC countries to global GDP (in %). *Source:* World databank, 2014



potential for foreign brands that so far have not been able to realize additional business potential in these markets (globeone 2011). This is surprising, since 75 % of the total world market for goods and services of U.S.-based companies is outside of their home country. In Japan's case this ratio is 85 % and for German companies it reaches 94 %.

For the BRICs there is still much catching-up to be done. Experts estimate that the BRICs will contribute up to 70 % of global GDP growth between now and 2025. This exceptional rise has many implications for our lives, industries and markets in the West. New corporate champions from the emerging world will acquire competitors in Europe and the U.S. to expand their global share. Magazine covers are already telling us that we just started "China's Century" and that "The New India" is an emerging star, even though its newly elected Prime Minister Narendra Modi has to overcome massive shortcomings; including weak infrastructure, rampant corruption and a much criticized educational system. Despite this, many "hero brands" from the emerging markets are rising stars in terms of international rankings.

The new centers of economic activity have developed so much importance and momentum that they will contribute to securing our investment returns and pension savings. Leading asset managers like Pimco, the world's largest bond fund, have advised their customers to increase exposure to faster-growing emerging economies for years. They better in order to be prepared when the new champions from the emerging universe attack them on their home turf in the near future. Chinese companies are already very busy snatching up many of the world's most valuable company assets with top-premium tire manufacturer Pirelli being the latest trophy. 2014 turned out to be the biggest and best year ever for Chinese outbound investments, with private companies at the forefront of this global push.

With their hunger for U.S. and European assets and brands growing incessantly, Chinese investors are buying London properties, German machine tool companies and Canadian oil sand assets. They are even on their way to becoming the new "Barons of Bordeaux." While the global economic downturn reduces demand for exquisite French wines, Chinese buyers are riding to the rescue with the goal of securing valuable resources. Moreover, they want to be there in the years to come, when Chinese tourists bring billions of dollars to spend. After three-digit growth rates in Bordeaux's wine exports to China in 2010, the People's Republic overtook the U.K. and Germany as the wine region's largest client. New investors from China are starting to set up spas, hotels and restaurants next to historic castles in the region, and the days are not so distant when Saint-Emilion wines will be served next to a plate of delicious pigs' feet.

China and India—each resembling more a continent than a country—have been global engines of growth before and history is now repeating itself. Until the early 1800s, the two Asian giants contributed half of the world economy's output, but then relative decline set in, thanks to Europe's rise and China's decision that it did not need the world's markets for its advance. China and India's added share of the world economy shrank from 49 % in 1820 to just 8 % in 1973. Only after China started opening up—and India hesitantly followed with its own reforms in 1991—did their combined share start to rise again, to 17 % in 2001, and to roughly

25% in 2013. According to OECD estimates it may rise again to a combined 36 % by 2025.

This number may sound very ambitious, but with a stagnant Euro Zone economy and the ongoing recovery in the U.S., less growth is needed in the BRICs to finally catch up and take the lead. China, India and Brazil managed to leave the financial crisis behind at a much greater speed—and with much less harm done—than Europe and the U.S. According to a Goldman Sachs ranking of the largest economies by GDP, India rose from 12th place in 2007 to 9th place in 2012. Brazil has managed to climb from the 10th position up to seventh during this period, and China rose from third to second. Russia also improved its standing from 11th to 10th place, before its wheels came off amidst Western sanctions, collapsing oil prices and a falling ruble.

Headwinds from the world economy, especially from Europe as well as falling raw material prices have also slowed the turbocharged emerging economies. But those who are familiar with the BRICs do not expect any deterrent to their long-term prospects. It is true that their labor exodus from rural regions to the urban centers has slowed, but relative urbanization rates—with the possible exception of Brazil—are still well behind those in the developed world. Moreover, two-thirds of the decline in China's growth in the current cycle is attributable to reduced investment rather than lower consumption. Chinese consumers continue to add purchases to their shopping carts at double-digit rates, and they will go on doing so in the years to come. In the new book, "The $10 Trillion Prize: Captivating the Newly Affluent in China and India" by the Harvard Business Review Press, the authors are predicting Chinese and Indian consumers will spend $64 trillion during the current decade, and $10 trillion in 2020 alone—which would equal 71 % of U.S. GDP in 2010. The middle class population in the two countries is expected to reach one billion by 2020. Chinese consumers born in 2009 are forecast to spend 38 times more than those born in 1960, and in India, the proportion of the middle class is predicted to grow from 28 % to 45 % by the end of this decade. This increase equals roughly two and a half times the population of Germany.

Jim O'Neill at Goldman Sachs, the man who will forever be remembered as having coined the term BRIC, is not bothered by a temporary slowdown in China. Based on the outlook of 7 % annual GDP growth until 2020, China—according to O'Neill—would still reach a GDP of $13.5 trillion. That would translate into additional economic activity of $2.1 trillion, even if Chinese consumption remained stuck at 35 % of GDP. Just to put this number in perspective, the total size of India's economy in 2013 was $1.88 trillion.

The BRICs are not only about size, but their diverse economies are increasingly linked by trade of goods and services, as well as by an expanding network of activities and institutions. China is already the largest trading partner for Brazil, India and South Africa. The main impetus for these early stages of real integration comes from the political sphere. At their meeting in Los Cabos, Mexico, in June 2012, the member countries decided to set up a common development bank, as well as a foreign exchange pool. They also agreed to launch a currency-swap arrangement that will help to buffer them from future shocks from the global economy. The swap arrangement will allow the BRIC nations to lend each other money in order to keep markets liquid.

In late 2012, China and India also agreed to a 5-year plan on economic cooperation. A newly formed joint working group with senior officials from both sides will regularly submit recommendations on common initiatives for investment and trade-related matters. Bilateral trade between India and China is growing at rates close to 30 %. This is the reason why economic integration between the BRIC members is also starting to take shape because there is a rapidly growing network of supply chains, joint ventures and industrial transfers. One of the latest examples is General Motors' Chinese joint venture SAIC-GM-Wuling Automobile as it transferred assembly technology to India in August 2012 to build two new car models, using CKD kits. It was the first time ever that a Chinese automotive company gave the intellectual property rights to build a complete passenger vehicle to an overseas company. By doing this it will truly be a BRIC enterprise.

Another example, China's Lenovo, already the world's largest PC vendor—and undisputed No. 1 in the emerging markets—has recently acquired Brazilian consumer electronics company CCE to continue its aggressive expansion into South America. Brazil itself has become the third-largest national PC market and is still growing. In India, car sales are finally starting to go into overdrive because millions have crossed the wealth threshold and are becoming first-time vehicle owners. Research firm LMC Automotive projects that light vehicle sales in India will quadruple to reach 11 million units by 2020, from 2.7 million in 2010. The problem is not finding buyers for new cars, it is getting the roads built in a country where traffic has so far been dominated by bullock carts, cows, bicycles and rickshaws.

The rapid rise of the emerging powers has become so impressive that, in Americas' view of the world, China has already surged past the U.S. in economic terms. In its "World Affairs" survey in 2011, Gallup reported that by a margin of 52–32 %, "Americans are more likely to name China than the United States as the leading economic power in the world today" (Gallup 2011).

It turns out that statisticians, economists and banking analysts are not the only ones mesmerized by the rapid rise of the BRIC countries. Consumers in China, India and Brazil are optimistic as well. In a study on economic troubles since the onset of the financial crisis in 2008, the Boston Consulting Group revealed that a majority of consumers in the world's richest markets are insecure and struggling to save, while people in India and China are still among those who believe that their children will live a better life. The BRICs have turned out to be "a bright spot in an anxious world," even at slower growth rates. The same optimism has infected managers in leading BRIC companies, who are increasingly taking their businesses global. Anand Mahindra, the chairman and managing director of India's Mahindra & Mahindra, is one of them. "If you had looked at us 10 years ago, and if I had said that we would grow from $1 billion to $14 billion, no one would have believed it. Yet that is what we have accomplished; in 10 years' time, we want to be one of the 50 most admired brands in the world on the basis of metrics that are both quantitative and qualitative," he said (Boston Consulting Group 2012a, b).

The rising number of champion brands coming out of the BRIC markets is yet another reason for Western companies to strengthen their position in the emerging markets and to build well-recognized brands. German companies are very active in this regard and according to a paper by the Cologne Institute for Economic Research (IW), Germany's exports to the BRICs rose by 107 % during the second half of the last decade, while the country's exports overall climbed a more moderate 21 %. As a result, the BRICs bought goods and services from German companies worth 100 billion euros in 2010 and half of that was sold to China.

If you travel in the BRIC countries, you get the impression that in many cases European companies have understood much better than their American competitors the opportunities offered to them by the rise of these large emerging countries. In a report in October 2012, Reuters correspondent David Rohde described his impressions after a visit to Pernambuco State in northeastern Brazil. The birthplace of former President Luiz Inacio Lula da Silva is attracting massive domestic and international investment and is now one of the fastest-growing regions in the country, after decades of poverty. Former sugar fields have been opened up for commercial development and one of Brazil's largest refineries, combined with a port and shipyards, was developed at a cost of $13 billion. Rohde visited a new factory, built by the world's second-largest food conglomerate, Kraft, based in Chicago. It will churn out chocolate wafers and Oreo cookies for the millions in Brazil's new middle class. According to the plans, the factory will triple in size over the next 5 years, expanding its workforce to 2200 people during that time.

Rohde found out that during the 8 years to 2011, American companies like Kraft, Alcoa and Pepsi invested roughly $244 million in this part of Brazil, while two dozen European firms, like Fiat, Nestlé and Novartis, spent over $4 billion. Rohde's impression: "Doing business in Brazil is extremely frustrating, costly and time-consuming and success requires patient, long-term investment. While European companies focused on the long term have flocked to the northeast, American managers, focused on short-term profits and their companies' daily stock price, have focused on the saturated markets such as; Sao Paulo and Rio de Janeiro, which according to Rhode, 2012 is a lost opportunity for the United States" (Rohde 2012). Touring the U.S. factory, the correspondent found solar panels from Spain and high-speed packaging equipment from Italy, as well as German machinery. Kraft managers got the land for the factory for free and on top of that they received a 90 % tax break.

1.1 Where the Profits Are Made

More and more foreign companies seem to understand that selling to customers in BRIC countries via exports is not the whole deal. One example is BMW, which in Mandarin is called "Baoma," or "precious horse." China already accounts for about 30 % of BMW's operating profit and for about one fifth of its revenues. In May 2012, the luxury automaker launched its second plant in the northeastern Chinese city of Shenyang making it BMW's 25th worldwide. As a result, the capacity will rise to 200,000 vehicles, highlighting the tremendous potential of this market for the

German premium carmaker's growth. In early 2012, China became BMW's largest market by sales, surpassing Germany and the United States. The Munich-based company has now decided to launch its own Chinese brand in the People's Republic. Daimler and other car producers are doing the same, and so will competitors from different industries.

Businesses just cannot afford not to be there. In a poll of business managers at 431 large and mid-sized companies around the world, the market research group Global Intelligence Alliance revealed that Brazil, China, Russia and India—in that order—are the most favored markets by German companies. Half of the companies in this poll said that "at least 30 % of global revenues will come from emerging markets by 2017." While less than one-fifth of the managers look to emerging markets as a low-cost supply base, most of them are expanding their investments in order "to establish a presence in future major markets for long-term gains."

American executives seem to share the views of their European colleagues when it comes to building a long-term presence in emerging markets. Yum Brands, the owner of KFC, Pizza Hut and Taco Bell, is accelerating its expansion in China to make up for weakening performance in the saturated U.S. market. Their sales in China are growing by multiples of what they are seeing in their home market, and operating earnings in the Middle Kingdom are rising at solid double-digit rates. In 2015, Yum Brands wants to generate 75 % of its profits from international business, and the BRICs are a key element in this growth strategy. Already in November 2011, the U.S. company decided to separate its India business into a standalone segment, another move seen as a strong indication of Yum's interest in expanding on the subcontinent.

Companies from Swiss food giant Nestlé to sportswear producer Adidas and luxury goods icons like LVMH (Bulgari, Louis Vuitton) and PPR (Gucci, Yves Saint Laurent) all tell the same story; Markets in the West are saturated and anemic, but even with slowing growth, their hopes for long-term expansion rest with emerging markets. China alone now accounts for about 40 % of the global luxury goods market, and Chinese consumers are driving sales even beyond their own shores. With their travels to European countries and the U.S., they are giving an additional boost to sales of luxury goods. Italy's Luxottica, the largest eyewear maker in the world, reported sales growth in recent quarters for emerging markets that were 20–30 times higher than in Europe.

According to Euromonitor International the global luxury goods sector will expand by $74 billion to $376 billion, with the BRICs delivering 16 % of this total, as China climbs to become the second-largest market for these products worldwide. If the prognosis turns out to be correct, India is likely to record the fastest level of growth, with a 163 % increase in constant value terms by 2017. German machine tool companies, according to their association's most recent calculations, saw Asia's share of their total exports rise from 17 % to 30 % during the last 10 years, while exports to the rest of the European Union declined from 50 % to 39 %. For Danish brewer Carlsberg, Russia has become its largest international market. Furthermore, at SAB Miller 70 % of revenue comes from developing economies, where expanding adult populations, rising incomes and thriving consumption are boosting sales and profits. U.K.'s consumer goods giant Reckitt Benckiser announced in early 2012 that it would merge its North American and European operations to focus investment and resources on emerging markets like Brazil, India and Indonesia. And more than 3 years after battling for survival, Jaguar Land Rover is reporting a turnaround based on demand from emerging economies. Demand, especially, from China and Russia is helping the company come roaring back to health, according to Jaguar Land Rover's Indian owner the Tata group. This can be seen by the stunning number of fully loaded Range Rover's on the cluttered roads of Shanghai, Sao Paulo, Mumbai and St. Petersburg.

Some of the BRIC countries are driving entire global industrial sectors for structural or political reasons that come on top of the purchases by the new middle class. Massive infrastructure projects and higher emission standards in China, for example, are spurring demand for the construction-equipment market. Currently, 60 % of all global construction equipment sales are made in China. According to the latest Global Retail Development Index (GRDI), published by A.T. Kearney's Global Consumer Institute, Brazil, from the BRIC countries, tops the list of the 30 most-promising markets for global retail expansion for the second year in a row. An expanding middle class, high consumption rates, and a relatively young urban population are transforming the largest economy in Latin America into a top destination for specialty retailers. China and India are right behind Brazil in this ranking, in positions three and five.

1.2 Global Dimensions of the BRICs' Rise

The global dimensions of the grouping can best be gauged by the rise of the middle class in these countries. In an assessment published in August 2012, McKinsey offered the following calculation: In 1990, the number of people who earned more than $10 a day—which is sufficient to start thinking about discretionary purchases like washing machines and TV sets—was around one billion or one-fifth of the world's population. The majority of these more fortunate consumers lived in developed countries in Europe or North America and Japan. However, since then, exceptional growth in the emerging economies more than doubled the number of the 'consuming class' to 2.4 billion. Halfway through the next decade this number could rise to 4.2 billion, making it 7.9 billion of the World population. If this forecast proves to be correct, the number of people in the 'consuming class' would exceed the number of those who still can only buy necessities for the first time in history. Moreover, by 2025, almost 60 % of the estimated one billion households with income of over $20,000 per year will be from the emerging world. Consequently, they will dominate global demand of goods from toothpaste to luxury cars, and from smart phones to hamburgers. The effects of this historical shift can already be seen, and what is most visible for us is the rising tide of Chinese tourists visiting Europe and North America. On Boxing Day, December 26, 2011, Chinese tourists spent £100 million in London's stores and boutiques, turning London into the BRICs global shopping capital.

Before the recent cycle started to calm down, China alone was responsible for 42 % of all the base metals used around the globe. China's share of worldwide copper demand in 2012 was 40.6 %, and 36 % of cotton. China's outbound direct investment, in the meantime, has started to shake up Western industries, from energy to machine tools, and computers to winemaking. In the first half of 2012, domestic Chinese investors targeted 2163 overseas companies in more that 115 countries. The volume of outbound investment rose by 48 %. Among this was a $15 billion offer by state-owned oil conglomerate CNOOC for Canada's Nexen, and an offer by Hong Kong's Hutchison Whampoa for Manchester Airport, the third largest airport in the UK. China's hunger for building materials has electrified Canada's softwood exports after they collapsed in the wake of the U.S. real estate crisis. Lumber shipments to China have now surpassed those to the U.S. for the first time ever.

Demand from China has lifted U.S. exports to the Middle Kingdom by 542 % during the last decade, according to the U.S.-China Business Council. Export growth rates to China since 2000, the last year before China entered the World Trade Organization, are more than triple those of any other country among the top 15 destinations for U.S. exports. China's rise has turned existing global trade routes on their head, shaping the world economy increasingly in favor of large emerging markets. During the last decade, the final assembly point of thousands of goods from various industries have been relocated from other countries in Asia to China. Increasingly, preliminary products are exported from Asia to China first, and then on to Europe or North America. This has created a huge trade surplus for China vs. the U.S., while, on the other hand China itself has developed trade deficits with many of its neighbors. For other countries in Asia, this has offered the opportunity to boost their export industries in China's slipstream. The size of the emerging markets in the BRICs—and their rapid mass take-up of social media and mobile devices in combination with the new middle class—has transformed them into perfect testing grounds where future global brands will go more and more for their first trials. Lufthansa for example started its first Groupon campaign worldwide in Brazil in early 2011, and PepsiCo Beverages, despite a lack of research innovation in Latin America, chose Brazil as the best country to transform its energy drink Gatorade into a sports nutrition brand with the help of a mobile research project. "Brazil is the second-largest market on Facebook, and there are more mobiles used there than the actual population of the country. With that being said, the opportunity for research is huge, even with people from low-income backgrounds," explained Ana Alvarez, PepsiCo Beverages' consumer strategy and insight director in October 2012 (Research Live 2012).

1.3 Countdown: BRIC Brands to Conquer the World

There are several good reasons to anticipate that many brands from large emerging countries will become much more prominent—and present—in Western markets; one of them is the rapid growth of new emerging-market consumer classes. The new middle class will propel local brands to become larger and more serious competitors. Another important reason is the global demographic shift; people are generally much younger in emerging markets. In the West, median ages tend to be above 35 years, compared to 25–30 years in emerging countries. During the next couple of decades, people in their economic prime ages (25–49 years) will mostly live in Asia and South America. New brands with global ambitions will need to serve this demographic shift. The capital necessary to feed the expansion of young and promising brands is more accessible than ever in emerging markets. High foreign exchange reserves, rapidly growing capital markets and expanding banking sectors are making it easier to get financing.

Many of the world's developing countries—especially in Asia, Southeast Asia and Latin America—have strong regional patterns marked by commonalities in tastes and preferences that are not addressed well by Western multinationals. Companies from these countries will rise to serve several of these regions by adapting their portfolios of brands to serve different regional needs. Therefore it is likely that we will see home-region multinationals emerge in taste industries, including fashion and food products. While emerging brands may rise with the help of growing home markets, cheap capital and young populations, many Western multinationals will be forced to retrench. They will cave in to growing competitive pressure, mostly stemming from weak Western markets and scarcity of capital back home. Once they are forced to choose between stabilizing their home operations and expanding in new markets, many will opt for the former.

Meanwhile, Chinese and Indian companies have started to buy up the world. Loaded with cash from their export businesses, as well as escalating revenue from their home markets, they are on a shopping spree. Chinese conglomerates are bidding for everything from German machine toolmakers to Canadian energy firms and Brazilian electricity grids. In China's case it is mostly government-controlled entities that are shopping abroad, and about a fifth of the global stock market value now rests in state-owned enterprises. This is more than twice the level that existed early in the last decade, and these companies not only have government support and cheap credit on hand, they also have some serious catching up to do. Chinese companies represent less than 10 % of global investment in international business, whereas Britain and the U.S. peaked with a share of roughly 50 % when they reached the prime of their international expansions. Figure 1.4 shows the current picture how aware consumers in Western Europe are of brands that are owned by corporations from the BRICs.

For companies from the BRICs, the debt crisis in the Euro Zone created additional opportunities in the form of good bargains. In 2011, direct investment from Chinese companies in Europe tripled from the year before. Total annual investment from China in Europe dropped somewhat from the peak in 2011 and 2012, but quickly re-accelerated in 2014. The latest purchasing rampage is mainly the result of a further liberalization in overseas direct investment regulations. Starting in early 2014, Chinese companies only need to declare deals up to $1 billion, anything less does not require permission. Previously, the bar was set at $100 million, and since then more than 70 regulations have been removed.

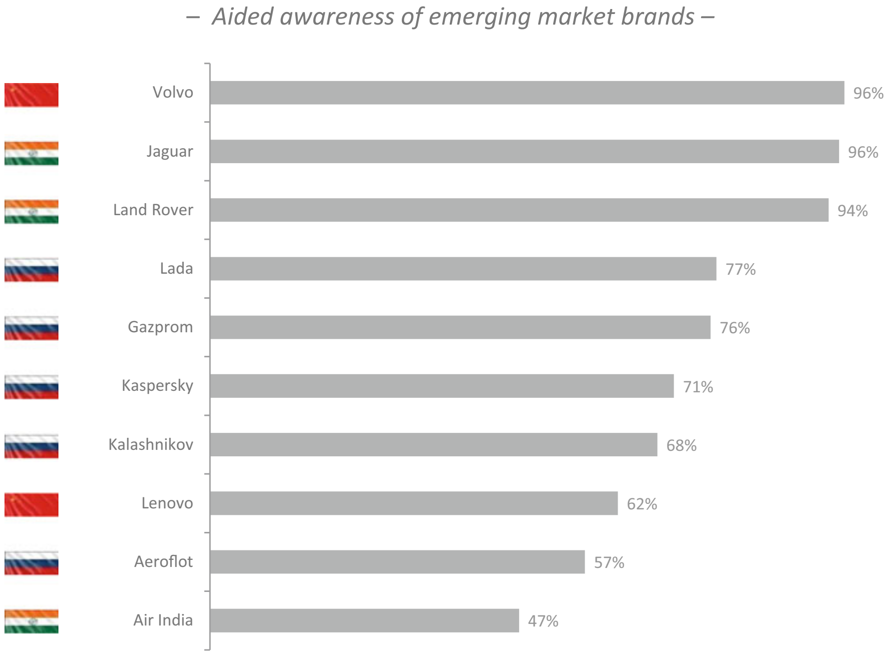


Fig. 1.4 Top ten BRIC brands in terms of aided awareness in Germany. *Source:* globeone Emerging Market Brand Survey, 2013

According to the Rhodium Group, a consulting firm, Chinese companies are only beginning their major international investment binge. Their direct investments in European companies are supposed to rise to $250 billion by 2020 and established brands and companies with a leading technological edge are the preferred targets. Indian firms are not far behind their Chinese competitors with surprising deals such as; India's Suzlon Energy acquiring German wind turbine maker Repower in 2007. Chinese managers heavily favor German targets when they turn their attention to Europe and according to Ernst & Young, one out of top four managers in China rates Germany as one of the three most attractive destinations for investment in the World. In January 2012, China even laid claim to a pillar of German industry when it announced that Sany Heavy Industry, China's largest producer of construction equipment, would acquire Putzmeister, a medium-sized maker of high-tech concrete pumps. The deal drew a lot of attention, and it was among the largest in which a company from the People's Republic acquired a family-run German engineering group.

Recently China has also been buying U.S. businesses at a record pace. Chinese direct investment in the United States hit a record high of around $8 billion in 2012. In America, Chinese companies tend to acquire shares or all assets of energy companies and firms in protected industries and some of the largest investments are made by firms with products that have been slapped with anti-dumping tariffs.

China has delivered a blueprint to showcase how capital and brands from Brazil, India and Russia can find their way into Europe and America in the years to come. In the first phase, increased inward foreign investment—and encouragement to form joint ventures—absorbs Western technology and management skills. A domestic manufacturing sector is built on the acquired knowhow, and a growing middle class is created. Once domestic companies are no longer satisfied with their small part in the value-added chain and are no longer content with their domestic market, they start to produce more advanced products and to expand into foreign markets. Cash-starved multinationals in Europe or America will, in many cases, be willing to sell their brands, distribution networks, knowhow or customer bases, enabling emerging companies to acquire advanced capabilities that would normally take decades to develop internally.

References

Boston Consulting Group. (2012a, July). *Recession mentality deeply ingrained*.

Boston Consulting Group. (2012b, August). *The accelerator mindset*.

CosmeticsDesign.com (2012, September 25). *Estée Lauder expects growth to continue in e-commerce channel*. Accessed December 29, 2014, from http://www.cosmeticsdesign.com/Market-Trends/Estee-Lauder-expects-growth-to-continue-in-e-commerce-channel

Economist. (2014, August 22). *Chinese and American GDP forecasts—Catching the eagle*. Accessed December 28, 2014, from http://www.economist.com/blogs/graphicdetail/2014/08/chinese-and-american-gdp-forecasts

Gallup. (2011, February 14). *China surges in Americans views of top world economy*.

globeone. (2011, September). *globeone BRIC Branding Survey*. Accessed January 01, 2015, from http://globe-one.com/1403-1403/

Research Live.com (2012, October 03). *Building brands with BRICs*. 10/03/2012.

Rohde, D. (2012). *How a place like Brazil can be a job creator for the US*. London: Reuters. 03.10.2012.

Schiavenza, M. (2014, October 08). China economy surpass US in purchasing power, but Americans don't need to worry. *International Business Times*. Accessed December 28, 2014, from http://www.ibtimes.com/china-economy-surpasses-us-purchasing-power-americans-dont-need-worry-1701804

The Economic Times. (2012, September 06). *BRICs' share of global GDP will go up from 18 % to 26 % over the next decade*. Accessed January 02, 2015, from http://articles.economictimes.indiatimes.com/2012-09-06/news/33650208_1_bric-countries-brics-share-punita-kumar-sinha

World Bank. (2011, March). *How do special economic zones and industrial clusters drive China's rapid development?*

Yale Global Report. (2012, September). *China's strategy for nurturing core workers as a global talent power*.

2 The New Paradigm: Market-Driven Approach and Need for a One-World-Strategy

The importance of going global has never been more obvious and never been greater than today. Consumers in Europe are exhausted from the loss of wealth and rising cost of living while consumption in the U.S. is only recovering slowly following the financial crisis. In contrast, consumption in many large emerging markets is projected to grow throughout the next decades. In their endeavor to sustain growth, companies from the industrialized world need to tap into and open up new opportunities in the large emerging markets. According to numbers from Keegan and Green (2010) that are illustrated in Fig. 2.1, 75 % of the total world market for U.S. companies lies outside of their country. For German companies this ratio is even higher with 94 % of their market potential that can be realized outside of Germany.

Clearly, going global is more than just a catchword, and many companies take it seriously. According to a 2013 report by McKinsey, the share of global capital flows going to emerging markets rose from 5 % in 2000 to 32 % in 2012. Roughly 40 % of cross-border capital flows are now made up of foreign direct investment.

2.1 Standardization Versus Localization

Not to be taken lightly, cross-border activity has its challenges. Companies that operate in more than one market, especially if they are striving for a truly global footprint, are constantly managing an internal tug of war. They need to balance conflicting priorities, are torn between standardization and localization, and must focus on minimizing the costs of day-to-day operations while maximizing revenue and on exploiting local opportunities while building their knowledge of various foreign markets. All of this then must be integrated into their overall business strategy and decision-making processes.

Achieving all of these goals at once produces many conflicts and the best way to reduce costs is often to achieve economies of scale. If you provide uniform services, offer the same standardized products and employ the same marketing approach everywhere, you can try to capitalize on converging consumer trends. The same

N. Schaffmeister, *Brand Building and Marketing in Key Emerging Markets*,
Management for Professionals, DOI 10.1007/978-3-319-19482-0_2

Going global is a very promising growth strategy. Especially for companies from developed countries.

United States | For U.S. companies, **75%** of total world market for goods and services is outside the country

Japan | For Japanese companies, **85%** of world market is outside the country

Germany | **94%** of market potential is outside of Germany for its companies

Fig. 2.1 Importance of going global expressed by market potential outside of the home country. *Source:* Fassnacht (2012) based on Keegan and Green (2010)

holds true for global sourcing, if your supply chain has an international reach, you can minimize costs and drive efficiency. However, important gains can also be made if you cater to unique local customer needs in different markets and if you intelligently position your brands against the local competition in different countries. Often enough, as a company, you are forced to make local adjustments anyway, because of local regulations, unique linguistic characteristics or strong local competition. In large emerging markets such as India, China, Russia and Brazil, there is often no other choice than to locally adjust or even fully localize many elements of your product and your marketing approach. As a cosmetics company, you cannot ignore the fact that there are many different skin tones in India or that the nature of Asian hair is very different. As a smartphone producer, you also must consider the fact that there are more than a dozen different alphabets in India when you want to offer the perfect keyboard for local consumers. At the same time, localization has a price: The more you adjust and localize in an unsystematic way, the less you can build economies of scale.

In a paper on "Global Strategy and Organization," the authors Cavusgil, Knight and Riesenberger distinguish between two sets of industries in order to highlight the conflicting goals that need to be balanced (Cavusgil et al. 2007). In industries such as food and beverages, clothing or fashion, competition is usually conducted on a country-by country basis, because specific tastes and distribution channels, cultural backgrounds, income levels and regulations force firms to pay more attention to the local business environment and local market needs. In this scenario, companies tend to choose a so-called multi-domestic approach, where they localize their product development and marketing. On the other hand, there are highly globalized industries such as aerospace, chemicals, industrial equipment, telecoms or computers, where companies battle it out on a regional or global scale. The pressure

Strategy	Global	Multidomestic	Transnational	Home replication
Approach	– Standardization and economies of scale as top priority – Low degree of localization	– Maximized localization – Highly decentralized with country units acting independently	– Mix of standardization and localization – Integrates emerging markets into intl. strategy	– Transferring a domestic product to additional markets without adaptation
Benefits	– Maximized global efficiency – Centralized control over R&D and decision-making	– Better local acceptance through high consideration of consumer needs – Increased competitiveness	– Combines economies of scale with domestic adaptation – Usage of COO effects possible	– Easy and fast to apply – No costs or efforts for product or strategy adaptation
Downsides	– Reduced local acceptance and market share – Less feedback from local operations	– No standardization – No economies of scale	– Difficult to execute – Conflicting goals of flexibility and efficiency	– Dangerous in the long run due to little understanding of local market – No chance for local innovation
Industry characteristics of application fields	– High pressure for global integration and short innovation cycles – E.g. mobile phone industry	– Limited need for scale but high pressure for localization – E.g. food or fashion industry	– Simultaneous pressure for high efficiency and local adaptation – E.g. luxury cars	– Low pressure for global integration and local responsiveness – E.g. large supermarkets

Fig. 2.2 Four main market entry strategy types based on Cavusgil et al. (2007)

to adjust to local needs and circumstances is somewhat lower in these categories, and companies can frame their approach to an entire region, or in some cases even the whole world market.

Figure 2.2 gives a brief overview of the character of the four different strategies that are referred to in the latest management literature. While the "global strategy" and the "home replication strategy" feature a higher level of standardization, the "transnational strategy" tries to combine standardization as far as possible with necessary local adjustments. Finally, there also is the "multi-domestic strategy," which allows for the highest level of localization, with the local entities acting in a decentralized way and being run almost as individual businesses.

2.2 One Size Fits All: The Global Standardization Mantra

So which is better; standardization or localization? The debate has been raging for decades and was started by Theodore Levitt with his 1983 article on "The Globalization of Markets" (Levitt 1983). Levitt famously predicted a worldwide consumer convergence of tastes. Levitt's underlying assumption was that consumers—no matter where they live on the planet—are increasingly motivated by the same desires, most of all to buy quality and value at a low price. According to Levitt, the world is one large market, and superficial regional differences can be ignored. Selling the same products in the same way throughout the world would be the best recipe for long-term success. The powerful force Levitt saw behind this convergence was technology where he foresaw "a global market for standardized consumer products on a previously unimagined scale of magnitude." Well-managed companies, Levitt asserted, should move from customizing items to offering globally standardized products that are advanced, functional, reliable and sold at a low price. The premise that would motivate companies to standardize was "a new reality" characterized by "enormous economies of scale in production, distribution, marketing and management."

Differences in national or regional preference were declared a thing of the past. "Commercially," Levitt argued, "nothing confirms this as much as the success of McDonald's from the Champs Elysées to Tokyo's Ginza, of Coca-Cola in Bahrain and Pepsi-Cola in Moscow, and of rock music, Greek salad, Hollywood movies, Revlon cosmetics, Sony televisions, and Levi jeans everywhere." World competitors, Levitt said, "sell in all national markets the same kind of products sold at home or in their largest export market." Whatever the cultural differences, such was the school of thought, they could be fully compensated for by offering better quality at a lower price.

More than 30 years later, we know that the world has not converged to a degree that allows for a worldwide one-size-fits-all approach, at least not in most industries and not in a radical sense. The large emerging markets, which many Western companies see as the last great frontiers of consumerism, may have a lot in common, such as their relatively young populations, rising incomes, sociocultural diversity, and rather conservative traditions. However, at the same time, tastes, cultural backgrounds, family values and income disparities show great variance. If anything, diversity seems to have increased in a corporate world where the emerging markets are important growth drivers and a strong imperative for success.

The result is a rising need to adjust brands and their marketing to the local market environment, at least to some extent. India, for example, with a massive market in the lower sections of its income pyramid, is a good place to sell simple, low-end and easy-to-use products if the goal is to achieve large sales volumes. Nokia used the Mobile World Congress 2013 in Barcelona as a stage to introduce its "Model 105," a low-cost cell phone for less than $20 with basic functions like e-mail, web surfing and pictures. It comes in only two colors and has a low-resolution screen, however its battery can last a whole month and its LED light can be used as a flashlight. Both functions are great for India's and China's countryside, especially in rural India, where power outages regularly occur. Or, take Volkswagen, for example, which is following Tata in building a low-cost car for China and other emerging markets (Autoblog 2014).

To get an impression of the various factors that demand these adjustments, just remember the framework of the "seven Ps" of marketing: product, place, promotion, price, processes, physical facilities, and personnel. Each of these seven parameters can help make a difference when the ideal positioning is sought, achieving a perfect balance between standardization and localization.

In recent years, there have been more and more interesting examples of brand companies that successfully adapted their offerings in terms of design, taste, name, innovative features or positioning in order to grow their sales in various markets.

There are examples of companies adjusting their cell phones for the South African market because people there make so much use of m-commerce that these transactions recently surpassed entertainment content as the leading application in the mobile segment. There are also examples like confectionery maker Cadbury, which had to repurpose its chocolate in India, because common Indian sweets (or "meetha") were popular as treats for traditional collective celebrations and festivals, while chocolate was perceived as a sweet pleasure that was instead to be consumed alone. Or there is the telling example of Intel, which found it difficult to explain the important role of its microprocessors in Brazil. However, when Brazilians began to earn more money and switched from desktops to laptops, brand and design became the factors driving the choices of consumers much more than pure processing power.

The automotive industry is traditionally one of the more global industries. While limited local adjustments for legal requirements regarding head and tail lamps, safety features and emission standards has always been an issue (referred to as homologation), traditionally the automotive industry has seen itself as a global industry. As a result it took many of the leading players until very recently to depart from this self-perception and to allow for substantially more adjustments to local market demands, including the development of vehicles that are specifically tailored to local market needs. For example, Volkswagen today develops many of its joint-venture models such as the Lavida and the Sagitar specifically for the Chinese market. Interestingly, this can also help reduce costs. The race is on for even deeper local adjustments in markets like China, Brazil, Russia and India, as the matching of the actual product to market expectations is increasingly seen as an important source of competitive advantage. Besides adjusting the actual product to local market preferences, the same holds true regarding the functional and emotional positioning of the product in different growth markets.

Listening and responding to different consumer needs and adjusting systematically to the differences is not a goal in itself. It is the shift in economic gravity of the growth markets, especially China, that is transforming the concept of local adjustment from "nice to have" into a strategic imperative in many industries. Given the fact that the BRICs, according to 2012 World Bank figures, represent about 42 % of the world's population and 20 % of worldwide GDP, such strategies take aim at a considerable market. Nevertheless, this kind of calculation does not take into account that, in many cases, there is huge potential within these large emerging markets for regional adjustments even below the national level. In terms of GDP, Macau is as large as Panama, Shanxi equals Hungary, and Zhejiang's economy is similar to Austria's. However, all three of these Chinese provinces (or special administrative zones, in the case of Macau) are very different in terms of income, traditions, tastes and values. While many markets in China are, overall, very open to global ideas and products, other markets are extremely local and deeply rooted in local traditions and tastes, with extraordinary variation from one province to another (Tse 2010).

2.3 The Market-Driven Approach

There is a simple message from examples in the previous paragraph: No, consumers usually do not want exactly the same products and brand promises all over the world, and if they happen to want the same product or brand, then they usually want it for different reasons, depending on their individual situation and consumption context. This is why alternative strategies were developed not long after Levitt's article on the triumph of standardization first appeared in the Harvard Business Review. "The decision on standardization is not a dichotomous one between complete standardization and customization. Rather, there can be degrees of standardization," argued Quelch and Hoff in their article "Customizing Global Marketing" in 1986. Another influential voice making a case against Levitt's strict standardization concept was Subhash Jain, professor for marketing at the University of Connecticut. In an article for the Journal of Marketing in January 1989, Jain argued that "the standardization decision is situation-specific, requiring reference to a particular target market for a particular product" (Jain 1989). Consequently, factors that have to be taken into account include the specific demand in the target market, the local competition, cultural differences, the marketing infrastructure, and the legal environment, among others.

Other scholars, like Geroski (1989), questioned Levitt's premise that consumer needs were converging over time. Geroski's point was that the main benefits that could be realized from the unification of Europe's markets were likely to come from extending diversity in markets rather than uniformity. In an article for the Harvard Business Review in April 2006, Darrell Rigby and Vijay Vishwanath argued that, after decades of "single-minded strategies of standardization" a quiet revolution in consumer markets was finally taking place, and success for retail companies and product manufacturers would from now on hinge on their ability to cater to local differences, while maintaining scale efficiencies (Rigby and Vishwanath 2006).

Consumer communities, they argued, "are growing more diverse—in ethnicity, wealth, lifestyle, and values." Their conclusion: "One size no longer fits all." In their article, Rigby and Vishwanath described how retailers and consumer goods companies started to customize their offerings to local markets by varying their "types of stores, product lines and alternative approaches to pricing, marketing, staffing, and customer service." The new mantra was: "gaining the efficiencies of centralized management without losing the responsiveness of local authority". The greatest benefits of this switch to more localization were described as strategic. Customization, the authors claimed, would encourage local experimentation and thus make products more difficult for competitors to copy. Moreover, localization strategies would offer durable competitive advantages. Standardization, on the contrary, could result in undermining the innovation process all the way up the supply chain. Rigby and Vishwanath based their findings on intense studies of dozens of so-called localization leaders, among them dominant retail chains like Best Buy and Tesco. "Even Wal-Mart, the sultan of standardization, is moving toward localization," they found.

The result of this fierce debate on the wisdom of standardization was a new paradigm. Companies needed to strike a sound balance and they needed to find the best way between; too much local adjustment that could lead to ballooning costs and diluting the integrity of the brand, and too much standardization that could punish the company with stagnation, declining market share and falling profits. China's admission to the WTO in late 2001 accelerated this shift in strategic thinking. A new middle class began to grow outside of the developed world and managers in European and American companies were eager to offer their products to another billion customers (McGregor 2007).

Meanwhile, India, Russia and Brazil have also created uncounted newspaper headlines about the rapid rise of their new middle classes. However, consumers in these countries had completely different tastes, histories, traditions, cultural values and needs. Indian parents did not want fancy accessories on their babies' diapers; they simply wanted them to be extremely absorbent and to stay dry all night, because the babies were usually sleeping in the same bed with them. Chinese car customers, in the early days of motorization of the country in the 1980s, were mostly managers and entrepreneurs, who preferred to have more space for their back seats because their chauffeurs were driving. The young generation of cell phone users in China and India first wanted clamshells and then fancy smartphones, not stiff, old-fashioned devices. Hindu people do not eat beef, so McDonald's, the fast food chain that brought the hamburger to the world, started to open its first vegetarian-only restaurants in India to adapt to customer preferences in the region. Kraft Foods had to create a special salt-and-pepper flavor for their TUC crackers in order to cater to Russian tastes. Yum! Brands, the owners of the KFC and Pizza Hut fast-food chains—and the largest foreign restaurant operator in China by sales, has thrived in the country because it has thoroughly studied and grasped the local culture. Yum! added fried shrimp and soy milk to the menu of its local KFC outlets, and it offers fresh seafood bacon pizza and Thai-style fried rice in its Pizza Huts. Starbucks has even opened a Chinese design center to help build its new stores, and it localized its food offerings with products like a Hainan chicken, a rice wrap and a Thai-style prawn wrap.

Today, many Western brand companies openly admit and explain that their success in other markets is a result of purposeful and deliberate local adjustment. "L'Oréal's rapid success in India can be explained by its ability to adapt to the demands of a market where cosmetic routines and purchases are firmly anchored in tradition," explains the French company. L'Oréal is credited with successfully widening its range of packaging options in order to better tap in to the growing middle class. Among the initial measures taken was the packaging of shampoos in small sachets instead of larger bottles, in order to make the product more affordable to people in lower-income segments. This local adjustment of the product enabled much broader reach than the standardized packaging would have permitted. With two research and development centers in Mumbai and Bangalore, L'Oreal goes further and invests in "understanding Asian Beauty"—and specifically Indian consumer needs. Indian woman want their hair to be thick, strong, straight and shiny black, and therefore traditionally, around 98 % of Indians use hair oil. In order to cater to this need, Garnier—one of L'Oréal's flagship brands—developed the Ultra Doux range that combines the nourishing function of hair oil with a regular shampoo. Natural ayurvedic ingredients as well as India-specific fragrances are another way to adjust in a locally relevant way. This strategy ultimately helped Garnier become the leading multi-category beauty brand on the Indian subcontinent.

What is the main idea behind all these examples? Vast new markets have opened up very quickly during the last two decades, and they can be very unforgiving if new brands entering into local competition do not pay enough attention to domestic preferences and do not develop their products and brands in line with local expectations. With a billion new customers entering the middle class in countries that have totally different backgrounds and traditions, it becomes simply too risky to ignore their unique characteristics. A market-driven approach has become necessary, one that takes into account the specific needs of local consumers more than before. The idea behind such a market-driven positioning approach is, in many cases, to sustain the global aura of an established brand and to extend its global impact in order to defend its pricing strength, but at the same time to address the unmet needs of local customers. The lesson is to use global tailwinds to strengthen your brand and optimize its local relevance, usage value and exposure.

Within such a strategic reorientation, deep market understanding becomes mandatory, and the risks are high. Those who do not pay enough attention or those who cannot find a successful business format might have to admit defeat and ultimately retreat from one or more of the large emerging markets. In late 2012, Home Depot, the world's leading home improvement chain, announced the closure of its seven remaining big-box stores in China. Home Depot had tried to transplant its business model in China and, according to retail experts, "never found the right format in a country where the do-it-yourself ethos that sustains its U.S. stores is largely absent" (Home Depot 2012). The Financial Times quoted James Roy, an analyst at the China Market Research Group in Shanghai, who explained that Home Depot became a victim of its own failure to fit the way Chinese consumers shop. Shoppers in the People's Republic prefer to go to places with multiple stores from competing brands rather than to one single-brand store offering everything. It makes them feel they have more choices and more chances to compare.

Depending on the market and the particular brand, the pursuit of a localization strategy might—in extreme cases—lead to a paradox that we have frequently observed in different markets: Stressing the foreign origin of a brand can, in some cases, end up being the perfect localization strategy. This is the case in markets where foreign (luxury) brands are in high demand and the actual foreignness or country of origin is a highly desirable aspect of the brand. However, in many truly global brand identity models the foreign brand origin is not part of the brand core and therefore it is not communicated actively.

Imagine China, where four out of the top ten most searched-for luxury brands on the Internet are German cars: Audi, BMW, Mercedes-Benz and Porsche. In this case, one could further boost one's local success by emphasizing one's German origin even more—in order to enhance the aspirational appeal of a brand that Chinese consumers are actively seeking out. This highlights that "localization" does not automatically mean that a company's foreign or international roots have to be hidden, and in fact it can actually mean exactly the opposite. It shows that "localization" is actually the wrong term to use unless you really mean that you want consumers to believe that the brand really is a local one. Therefore, we at globeone prefer to talk about *local adjustment* and *market-driven positioning* rather than localization, as the risk is too high that localization is misunderstood to mean positioning a global brand as a local brand.

2.4 The One-World Strategy

One highly respected strategist has taken the debate over standardization vs. localization to the next level. Edward Tse, in his 2010 article on "The China Challenge," advised Western companies to face "the new realities of the world's most compelling business opportunity," by integrating their Chinese activities with their worldwide enterprises in order to use China to transform their competitive position (Tse 2010). In the article, Tse named companies like IBM, Coca-Cola, Honeywell, KFC and Goodyear as prominent examples of a new wave of multinational firms that have started to move critical parts of their operations into China in order to leverage the country's increasing strengths and sophistication. By incorporating research and design trends, product development and marketing platforms from China more successfully into their global strategies, they can achieve a stronger global competitive position. Tse illustrated his suggestion for a "one-world strategy" by describing how, in 2006, IBM started to uproot its main offices for global procurement, transferring them from the state of New York all the way to Shenzhen in China's Pearl River Delta. It was the first time that "Big Blue" had moved one of its key strategic departments outside of the U.S. According to Tse this marked "a significant milestone along the road toward making IBM a globally integrated enterprise." China's booming South, at that time, was already known to many Western managers as one of the largest pools of procurement and related talent in the world.

Nevertheless, IBM was doing much more than simply strengthening its own supply base, it made serious preparations to move towards something that could be termed a "one-world strategy." In 2008, IBM followed up by opening another lab in Shanghai, after already having invested heavily in its China Research Laboratory in Beijing's Zhongguancun Software Park, one of eight flagship IBM labs around the world. By the time Tse presented his ideas for the one-world strategy, IBM already ran all of its global growth businesses from Shanghai, including businesses in Asia, Latin America, Russia, Eastern Europe, the Middle East and Africa. By proceeding this way, Tse argued, IBM was doing much more than founding its presence in China on just the expanding consumer population or cheap labor, it was integrating its Chinese activity with its worldwide enterprise.

The drivers of this strategic reorientation were already very visible and obvious to foreign companies in China at the end of the last decade. Not only was the People's Republic consumer market growing rapidly, profitability for global companies in China was rising as well. According to a 2009 study by the American Chamber of Commerce in Beijing, the percentage of companies reporting profit margins in China above their worldwide averages rose from just 13 % in 1999 to 50 % before the start of the global financial crisis. Moreover, at the time Tse published his article, China had already appeared on the radars of Western managers because of its increasing R&D footprint. More and more companies from Europe and the Americas had started to move part of their product development—as well as research and design—capacities to locations in China. They experienced first-hand in their own operations that more and more innovation was starting to come from fast-growing emerging markets such as China.

Developing new technologies and products in China for global application has become a key strategy in many multinational companies. Another example is U.S. carmaker General Motors; in 2012, the company moved its "General Motors' Advanced Studio," a future hub for automotive design, into a new design center located at GM's China headquarters in Shanghai. By doing this, GM is seeking to engage automobile designers and other professional artists, such as clay sculptors, to create cars for China and other key global markets. In an interview the design director of the Advanced Studio, Wulin Gaowa (who in 2010 was named one of the "10 Best Young Designers of China" by the China Industrial Design Association), was asked about the influence of the new center on GM's future products for both China and other parts of the world. Her answer was revealing: "The China market is playing a dominant role both in Asia and globally. As demand in China accounts for a bigger portion of GM's global sales, our success in China is critical. We need to closely monitor and predict Chinese customers' mobility behaviors, needs and preferences to ensure we are bringing the right products to the market. China's vast geography means that many different mobility solutions are necessary, and it seems logical to think that inventions here could have appeal in other markets with similar customer needs and behaviors." Wulin, who was educated in Germany as well as at Beijing's Tsinghua University, is convinced that cars designed in China will be accepted by overseas consumers: "Certainly, as long as the brand identity and brand promise is articulated correctly. For instance, designers here in China were responsible for the award-winning Buick LaCrosse interior design, which also sells in the U.S., as the same model. The local designers can understand the brand and its visual DNA, and therefore can continue to offer solutions that meet the brand promise to complement the international Buick showroom." Other global car manufacturers are following this example: In late 2014 Mercedes-Benz closed its design center in Japan and opened a new "Advanced Design Center" in Beijing. That being said, influences from China will clearly impact global automotive development and design.

While China is still trying to catch up to the West in terms of basic research, it has a big advantage that Western companies can already use for a one-world strategy: The Chinese are masters when it comes to innovating by commercialization, as explained by Glenn Leibowitz and Erik Roth in February 2012: "When the Chinese get an idea, they test it in the marketplace. They are happy to do 3–4 rounds of commercialization to get an idea right, whereas in the West, companies spend the same amount of time on research, testing and validation before trying to take products to market. The Chinese have an innovative way of doing innovation, something that the rest of the world is struggling to understand" (Pothet 2011).

The one-world strategy, in its original form presented by Edward Tse, was built and formulated around China, but it could just as well have been formulated around other growth markets like India or Brazil. The large growth markets are all characterized by a rapidly rising middle class, a large domestic market, an expanding manufacturing and R&D base, and increasing integration into global supply chains. Designing and developing new products or brands to meet consumer needs in these emerging countries, and then offering them in the rest of the world, is indeed no longer limited to China. One of the best illustrations for this shift in the automotive industry is Renault's low-cost car, the Dacia. In some countries it is called Dacia, in others it is called Logan. Technically, the Dacia is based on the Nissan BO platform, which had previously underpinned the Renault Clio. Carmakers worldwide are using older platforms when they want to keep their development costs to the barest minimum. The Dacia-Logan was first released in Romania in 2004, and later in Poland, Estonia, Slovenia and other Eastern European countries. In 2005 it was launched in Russia, and then Europe-wide and with the geographical expansion came a widening of the product range. New variants based on the same platform—but more advanced and more appealing—were offered and the Sandero was launched in 2008 in Brazil followed by the Duster, developed for Russia.

The initial mission of the new car brand was to open up new growth territories for the Renault group. Launching the Dacia has allowed Renault to expand its presence outside of Europe, to secure growth and market share in emerging markets, and to get a firm foothold in the rapidly growing low-cost passenger vehicle segment. By late 2012, Renault, together with its alliance partner Nissan, claimed 30 % of the Russian market, and the group's business outside of Europe grew strongly. In 2004, Renault made 22.8 % of its group sales outside of Europe. By 2007, this ratio had risen to 35 %. In 2012, more than half of Renault's worldwide sales were made beyond the European continent. However, in Europe itself the Dacia turned out to be a success as well as it offered a choice to people who had previously relied mostly on used cars, or who opted for a spacious and robust, yet affordable vehicle. Since 2004, more than two million Dacias have been sold in Europe and the brand is now for sale in almost 40 countries.

The success story of the Dacia is so convincing that other OEMs in the car industry are following suit. Fiat has announced that it wants to create a low-cost car brand to take on the Dacia. Nissan has re-launched the Datsun name as an entry-level brand for emerging markets. Volkswagen is also planning a low-cost brand and its management has confirmed that the German carmaker is working on a new budget brand, which might be based in China. "One thing is clear," says Remy Pothet, global practice head of TNS Automotive. "Traditional OEMs need to rethink their marketing strategies quickly and find innovative ways to reposition themselves in this increasingly dynamic market if they don't want to see their market share being squeezed further by the low-cost car phenomenon" (Pothet 2011).

It seems that this phenomenon has given a further boost to the one-world strategy, but China does not have an exclusive position in this new strategic environment. India is starting to leave its own imprint on this kind of car branding as well. Several multinational car producers, such as Volkswagen, Nissan and Mercedes-Benz, have already launched, or are currently lining up to launch, India-specific brands. Renault has launched the Logan in India and in 2012, Datsun had almost 2000 engineers working in their Chennai design center to develop an India-specific car. This is only one more example of a global brand working with local products in order to achieve more growth. “Multinational car companies don’t want to dilute the mother brand by offering products at significantly lower price points for the Indian market, which is very price sensitive,” says Ernst & Young’s India automotive sector national leader Rakesh Batra (Gupta and Chandramouli 2013).

In a sense, the Dacia represents what Edward Tse has called “the mindset of one-world companies.” They take advantage of great opportunities in large emerging markets like China, and place their local activities increasingly in a global context. The global context in Dacia’s case is the fact that a lot of future growth in the car industry will come from the low-cost segment, which is forecasted to reach up to 20 % of the global market by 2020. A significant part of this growth will come from Europe and the United States, where exhausted and higher-taxed consumers divert some of their spending away from cars, or switch to smaller, environmentally friendly vehicles.

It seems, though, that the full potential of the large emerging markets for further localization is far from exhausted, to put it mildly. New production methods, like the new manufacturing mantra of “modularization,” will allow a much higher degree of local adjustment. In such a modular approach, module parts from a global construction kit can be combined in much more flexible ways to create new auto models specifically tailored to local market needs, without losing the global cost efficiencies of large-scale manufacturing.

The question is, how will this new management paradigm of a one-world strategy and an enhanced level of adjustment to local market requirements be reflected at the brand level? Will we see a large number of new brands that will be created specifically to cater to the individual needs of the rising consumer classes in emerging markets? Or will we see corporations that mainly try to leverage their global brands across all of these emerging markets and segments, trusting in the global or foreign appeal of their brands? Or will we even see completely new and flexible approaches to brand management that sometimes conflict with the traditional brand management principles found in marketing textbooks? These questions are among the most pressing that marketing professionals and scientists will be facing in the next decade. Some of these brand-related strategies and techniques will be introduced in the strategy chapter of this book, and may serve as a starting point in developing your choice of where to position your brand on the continuum between complete local adjustment and a fully standardized global approach.

References

Autoblog. (2014, February 26). *VW has figured out how to make a cheap car for around $8,000*. Accessed January 01, 2015, from http://www.autoblog.com/2014/03/26/vw-figured-out-how-make-cheap-car-around-8000/

Cavusgil, T., Knight, G., & Riesenberger, J. (2007). *International business: Strategy, management, and the new realities*. Upper Saddle River, NJ: Prentice Hall.

Fassnacht, M. (2012). *Introduction speech at globeone's "Successful Marketing and Branding in the BRICs" Event at the Marketing Club Düsseldorf*, Düsseldorf.

Geroski, P. (1989). On diversity and scale – Extant firms and extinct goods. *Sloan Management Review, 31*(1), 23–35 (Fall 1989).

Gupta, N. S., & Chandramouli, R. (2013, February 05). Auto companies stripping brands for volume push. *Times of India TNN*.

Home depot shuts big box stores in China. (2012, September 14). *Financial Times*.

Jain, S. C. (1989). Standardization of international marketing strategy: Some research hypotheses. *Journal of Marketing, 53*, 70–79.

Keegan, W. J., & Green, M. (2010). *Global marketing* (6th ed.). London: Prentice Hall.

Levitt, T. (1983, May). The globalization of markets. *Harvard Business Review*.

McGregor, J. (2007). *One billion customers: Lessons from the front lines of doing business in China*. New York, NY: Free Press.

Pothet, R. (2011, September 26). Are low-cost car owners really committed to their brand? Accessed November 07, 2014, from TNS automotive blog: http://blogs.tnsglobal.com/tns_automotive/2011/09/are-low-cost-car-owners-really-committed-to-their-brand.html

Quelch, J., & Hoff, E. J. (1986, May). Customizing global marketing. *Harvard Business Review*. Accessed January 01, from, https://hbr.org/1986/05/customizing-global-marketing

Rigby, D. K., & Vishwanath, V. (2006). Localization—The revolution in consumer markets. *Harvard Business Review, 84*, 82–92.

Tse, E. (2010, Spring). The China challenge. *Strategy+business*, (58).

Commonalities and Differences of the Large Emerging Markets

3

It would be an epic exercise to try and list all the many complex differences between the BRIC countries. However, even more noteworthy is that there are also many remarkable commonalities when looking at these countries from a brand and marketing point of view. While the local cultures, ethnicities, languages and religions could hardly be more different, there are major similarities that are summarized in Figs. 3.1 and 3.2. These are important to understand when navigating these new markets in a quest for successful market and brand development.

3.1 Vast Geographic Expansion

The countries in the BRIC grouping are among the largest geographic countries in the world. They feature vast land masses that are spread out across diverse geographies, climates and vegetation zones. As shown in the country comparison in Fig. 3.3, they are more like continents than like countries. With 17 million square kilometers Russia is by far the largest country on earth. Interestingly enough, the other three remaining BRIC nations are also among the top ten largest countries with China ranking fourth followed by Brazil (5th) and India (7th). Among the roughly seven billion humans that live on planet earth, 2.6 billion live in only two countries—China and India which means 37 % of the world's population lives in two of the BRIC countries. Brazil, still in the top ten, follows on a distant fifth rank with only 194 million inhabitants (DSW 2012; United Nations FAO 2011). Consequently, all four BRICs feature large rural areas with a per capita purchasing power that is significantly below the urban centers. However, there are rising stars among the regions in the interior parts of these countries that marketers have to be well aware of.

Urbanization will be one of the main drivers of growth, but not everywhere. While Brazil has urbanized very early and to a great extent, China started in the 1980s and still moves between 20 and 30 million people from the Hinterland to the coastal and regional growth areas every year. In Russia and India urbanization is

N. Schaffmeister, *Brand Building and Marketing in Key Emerging Markets*, Management for Professionals, DOI 10.1007/978-3-319-19482-0_3

Commonalities		Implications
	**Vast geographic expansion**	▪ BRICs are rather continents than countries ▪ Rapid urbanization, development of city tiers & regional clusters
	**Younger age of consumers and labor force**	▪ Higher purchasing power of young consumers ▪ Marketing needs to reflect younger target groups
	**High complexity and diversity**	▪ Diversity in ethnicities, culture and languages ▪ Complex mix of impact factors on marketing strategy
	**Huge expanding middle class**	▪ Middle class as main growth engine across BRICs ▪ Importance of global and local marketing strategy

Fig. 3.1 Summary of commonalities among the large transitional economies of China, India, Russia and Brazil (1/2). globeone (2014)

currently gaining steam, while China's migration has mostly run its course, it still has enough thrust to influence growth in a significant way. By 2030, the country will have around 220 cities with more than one million people and another 300–400 million people will move to urban areas. Therefore, entering the right places is an important part of the success equation. In large emerging markets with their massive waves of urbanization, it is key to identify cities and clusters where the growth will take off next. Large metropolitan areas, such as Moscow in Russia, Delhi and Mumbai in India, or Sao Paulo and Rio de Janeiro in Brazil, are characterized by gruesome competition and often very thin profit margins. However, in 2nd and 3rd tier cities, growth rates can be much higher, while land costs and wages are well below the level in leading cities, and the markets in inland provinces often grow much faster. But be aware of a significant diversity, as even geographically close neighbors like Guangzhou and Shenzhen in China can be very different. It takes only a hour's drive to go from one city to the other, but in Guangzhou, most inhabitants are locally born Cantonese speakers, where Shenzhen, on the contrary, is a city with a lot of migrant laborers from other parts of China. They speak dozens of different dialects and have widely varying regional origins, traditions and tastes.

Commonalities		Implications
	**Rapid transition and social mobility**	▪ Rapid change of consumption patterns and motivations ▪ Social prestige focus and trading-up as common patterns
	**Intense competition from local & global champions**	▪ High competition for share of voice ▪ High media cost & investments for brand building
	**Lower brand knowledge**	▪ Many first-time buyers in the market ▪ Consumer education & storytelling required
	**Digital and mobile affinity**	▪ Extreme importance of digital and social media for brands ▪ Rapid adoption of mobile internet and e-commerce

Fig. 3.2 Summary of commonalities among the large transitional economies of China, India, Russia and Brazil (2/2). globeone (2014)

Top 10 Largest Countries in the World by Area

1	**Russia**	17,098,242 km^2
2	Canada	9,984,670 km^2
3	USA	9,826,675 km^2
4	**China**	9,596,961 km^2
5	**Brazil**	8,514,877 km^2
6	Australia	7,741,220 km^2
7	**India**	3,287,263 km^2
8	Argentina	2,780,400 km^2
9	Kazakhstan	2,724,900 km^2
10	Algeria	2,381,741 km^2

Top 10 Largest Countries in the World by Population

1	**China**	1,369.811 mil.
2	**India**	1,267.402 mil.
3	USA	319.020 mil.
4	Indonesia	252.812 mil.
5	**Brazil**	202.034 mil.
6	Pakistan	185.133 mil.
7	Nigeria	178.517 mil.
8	Bangladesh	158.513 mil.
9	**Russia**	141.049 mil.
10	Japan	126.125 mil.

Fig. 3.3 All four BRIC countries among the top ten biggest countries in the world by area as well as by population. *Sources:* mapsofworld.com, worldbank.org, 2014

3.2 Younger Consumers and Labor Force

The age structure is underpinning the massive consumption story that evolves in the BRICs, because individuals consume most intensively in their lifetime between the ages of 16 and 40, when their careers take off, their income rises, their homes and families are built, and before they start to save for retirement. This is a key strength in many growth markets, as the BRICs are young with median ages up to 15 years younger than the developed world (e.g. India's median age is only 25). In 2011 around 35 % of Brazil's population was 20–29 years old, in Russia, the population share of this age bracket was 34 %, in China it was 36 %, and in India a staggering 47 %. People at this age are starting careers and families and their consumption goes up significantly, for the first time they buy cars, washing machines and other big ticket items. Paying attention to the particular—or unique—age structure of a given market makes a lot of sense. Take Chinese car buyers as example: Depending on the age group, they look at very different features when they select a car. Older respondents, who were born in the 1960s or 1970s, often gave brand image the highest priority as well as the function for which the car will be used. However, for the new generation of car buyers, born in the 1990s, the car has become an expression of their identity and personality, making the car's exterior styling a priority. In addition, road traffic conditions are a major concern making safety (54 %) and exterior design (47 %) the top purchase decision factors for this generation (Zhuang 2011).

The demographic change related to the emerging middle classes is still in full swing. From now to 2030, according to various estimates, around 1.2 billion of the world's 1.3 billion future citizens will be born in the emerging world, equaling more than nine out of ten births. During the same period Europe will only contribute 0.01 % to the new global population. As a result, the emerging markets will be extremely young, meaning that by 2030, 40 % of the population is projected to be under 25, compared to just 26 % in developed nations, according to Roland Berger, 2012.

This massive shift in the age composition of the global population will have far-reaching consequences for consumption patterns. Expenses for everything from education to leisure, entertainment, travel, health and communication devices will explode, and the driver for this is not only a growing number of young people. Their education will also improve, as will their careers and their income, meaning that as headcount rises so will purchasing power, and at an even faster pace.

3.3 High Complexity and Diversity

Another common factor is the high complexity of the BRICs. They are mostly diverse, with large numbers of ethnic groups, languages or dialects and religions. The diversity in these countries creates complexity that needs to be considered in successful positioning strategies and by the related marketing and sales organizations. A careful targeting of relevant consumer groups and geographical regions is necessary and requires careful research and planning. Brand performance will also not be the same everywhere in these large countries and as a result the approaches must be differentiated.

India has 22 official languages and around 1200 dialects. Hindi, the official and most prevalent language, is only spoken by about a third of the population. Local languages are so diverse that the top ten newspapers are published in vernacular languages. The English paper with the largest circulation is only 11th on the list of the leading dailies. There is so much diversity to find in India's numerous social, cultural, economic and geographical milieus, that the much acclaimed Indian consumer market is elusive (On Device Research.com 2012). Insiders such as market researchers, brand experts and marketing executives share this view; "While we have the same strong family and social values across the nation, our language, taste, culture, traditions and festivities change every 100 miles", explained Devita Saraf, the CEO of Vu Technologies and executive director of Zenith Computers in Mumbai (Wall Street Journal 2009). Given this, the need to develop the necessary mindset and strategies to manage this plurality is a major challenge in itself.

Brazil has a similar diversity population, due to the slave trade in its colonial past, and due to centuries of immigration, mostly from Europe and Asia. Hundreds of thousands of slaves were brought to Brazil from Africa to work in sugar fields, mines, and coffee plantations. After the slave trade ended, many Italians started to work on the coffee plantations around Sao Paulo, followed by the Portuguese during colonial times. Immigrants from Italy, Germany and Spain followed in the nineteenth and twentieth centuries. Smaller numbers of immigrants came from Eastern Europe and the Middle East, followed by the Japanese during the first decades of the twentieth century. Koreans then began to arrive in the 1950s and the native population, once at around five million, now comprises of only 0.02 % of the total population. Basically all the racial and ethnic groups that arrived in Brazil have intermingled and married leaving the resulting mosaic so diverse that many people can hardly be identified in racial terms.

The diversity in Russia is also much greater than what first meets the eye. After the collapse of the Soviet Union there was a significant increase in immigration from former Soviet states. This was accompanied by an increasing self-consciousness of minorities all over the country. In her 2007 analysis on "Diversity Management and Concepts of Multiculturalism in Russia", Victoria Antonova highlighted Russia's diversity for the Open Society Institute and the Central European University Center for Policy Studies (Antonova 2007), using the Saratov and Perm regions as examples. In the Saratov region alone, she counted 112 nationalities with the majority of the region's population being Russian, 81 %, followed by Tatars, Mordva, Chuvashi and Kazakhs.

On the other hand, China is a much more homogenous society, if you compare it with Brazil or India. However, its diversity should not be underestimated when you design strategies for markets beyond the 1st and 2nd tier cities. Every year in March, when almost 3000 delegates for the National People's Congress convene in Beijing, there is a symphony of colors, costumes and headgear represented by all the minorities in the country. They all show up at the annual meeting dressed in their traditional robes and garments and this festival of colors always translates into a spectacular show on national TV and in reports outside of the country. Chinese culture is represented through Dongjing music performed by the Nakhi people from Huize county in Yunnan, but also by the age-old silverwork tradition of the Miao people, and the Hoomei, a magical vocal art where the throat produces three different sounds at a time.

3.4 Huge Expanding Middle Classes

The BRIC countries are fueling an unprecedented expansion of the world's middle class. This is another major development they have in common and this will also be a major focus in the later chapters. All BRICs have a large untapped and growing labor force. While China's has almost reached its maximum expansion, Russia is already experiencing some labor shortages. In Brazil and India, a large proportion of the population is only about to enter the labor market. This development creates an additional income stream so powerful that according to the HSBC "emerging market consumption could make up almost two-thirds of global consumption in 2050, compared to around one-third today." The underlying rise in incomes will change consumer preferences on a worldwide scale. Discretionary spending in the emerging growth countries will rise from slightly more than 30 % of total spending to as high as 60 %. Healthcare, recreation and financial services will be among the main beneficiaries, while the proportion of available income spent on food will decline from more than 40 % to around 10 %. However, incomes will not grow at the same speed in every BRIC country.

According to the HSBC report, China's real income gains per capita will on average be close to 6 % from now until 2050, India's will be slightly below 5 %, and Brazil's will be below 3 %. While Brazil is starting from one of the highest overall levels, India is starting from a much lower level. Between now and the middle of the century, the country will move from the low to the upper-middle-income bracket and will thus see the biggest changes among the BRICs (HSBC 2012).

For the past decade, private consumption in the emerging countries has been growing at about three times the rate of advanced nations, according to the Carnegie Endowment (Carnegie Papers 2012). The Boston Consulting Group has used a historical comparison in order to illustrate the worldwide impact of the emerging middle class which has turned into a massive global growth engine. The share of people who had sufficient income to purchase anything beyond basic daily needs was below 1 % through most of history, however by 1990, the number of people who were able to use some of their income for discretionary spending (income of $10 a day) had risen to one billion, out of a total world population of five billion, reaching 20 %. However, the overwhelming majority of these lucky people lived in developed countries and only over the past two decades, urbanization, rapid growth and more market-oriented policies in emerging nations have more than doubled the ranks of the consuming class. Expectations are that halfway through the next decade the global consuming class will double yet again, to 4.2 billion people. For the first time in recorded history the consuming class would then outnumber those who are struggling to meet their most basic needs. Based on estimates of the consulting company, 60 % of the one billion families with earnings over $20,000 per year will reside in the developing world and from a historic perspective the global consuming class will then be turned upside down.

Large multinational companies and their suppliers are taking a close look—and are adjusting their strategies—to capitalize on this mega-trend. Coca-Cola announced in June 2012 that it will adapt its global strategy in order to reflect five global mega-trends, one of them being the rise of a new middle class in the emerging universe. The U.S. beverage producer expects another one billion middle class consumers in the coming 10 years. By 2030, according to Coca-Cola's assumptions, over 90 % of their audience will live in emerging nations, compared with 50 % today (WARC 2012).

3.5 Rapid Transition and Social Mobility

While the overall level of brand knowledge and brand loyalty in most emerging markets is at a substantially lower level, there is another common factor across the BRICs and that is fast transition and social mobility. Due to the economic development and growing middle classes, there are many 'winners' of this development. Results from globeone's BRIC Branding Survey displayed in Fig. 3.4 suggest that the vast majority of the urban population in the top megacities across the BRICs is very positive about the development. Being asked if their personal living conditions have been affected positively in recent years, except for Russia, a stunning majority

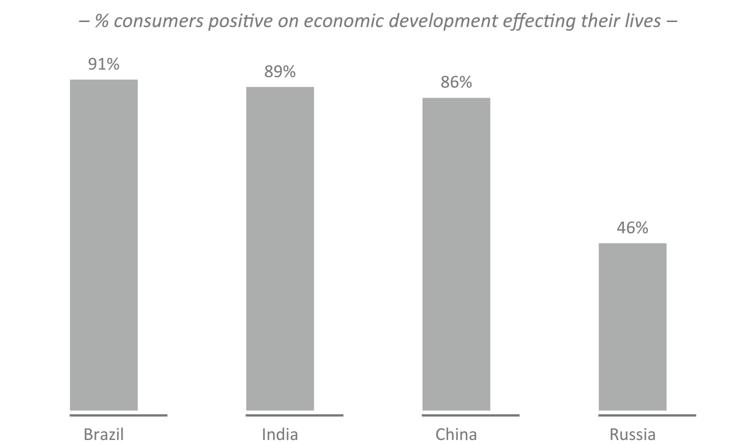


Fig. 3.4 Positive perception of development path across Brazil, India and China. Total sample 4033 respondents. *Source:* globeone BRIC Branding Survey, 2011

of citizens agree with this; in Brazil (91 %), India (89 %) and China (86 %) (globeone 2011).

This positive development that is present in the urban middle class proves that constant social advancement is taking place. In addition, there is also a common tendency across the BRIC markets to consider the ownership of prestigious foreign brands as important. For example, 69 % of urban Indians agree with the importance to own foreign brands while the level is similarly high in China and Russia (both 67 %). Only Brazilians appear to be less intrigued to communicate their new status through conspicuous consumption with only 50 % agreement (globeone 2011). Status consumption is an omnipresent phenomenon across the BRICs and it is the jet fuel that propels global fashion brands and German premium car manufacturers from one sales record to the next.

Societies in the developing world, along with their traditions, values and consumer habits, are undergoing dramatic changes. As large transitional countries like Brazil, Russia, India and China see their middle classes expand, more people are becoming experienced shoppers and tourists turning increasingly more cosmopolitan and individualistic. Additionally, as foreign influences become more widespread, the collision between modernization and tradition is causing conflicts. Very often, the forces of modernization are perceived as contradicting traditional local values. However, this perception is not equally strong in every country. In the comparison among the BRICs in Fig. 3.5, Brazilians show by far the highest perceived contradiction between the global forces of modernization and local values (83 %). In India and China, the perceived contradiction is also high with 77 % and 66 % respectively.

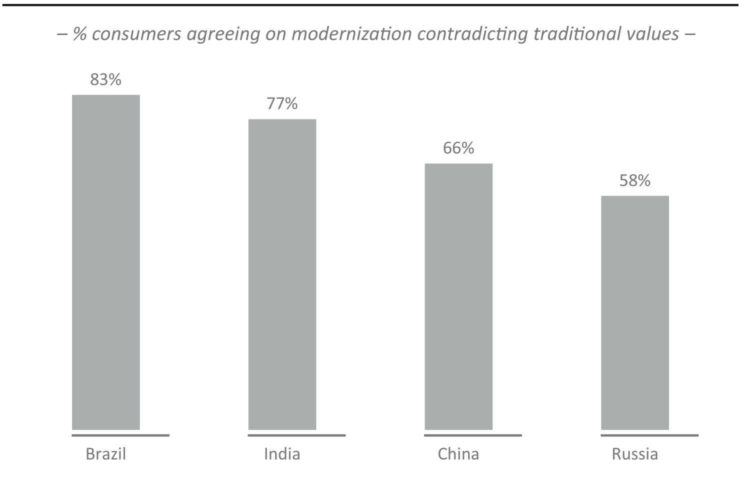


Fig. 3.5 Foreign influences seen as contradicting traditional local values. Total sample: 4033 respondents. *Source:* globeone BRIC Branding Survey, 2011

More traveling, more foreign inspired TV ads, as well as the quick proliferation of the Internet and social media, are allowing the new middle class to explore the world and become part of the global village. Unfortunately this is also where the contradiction starts: Individualism challenges collectivist traditions. The extended family is beginning to give way to the nuclear family where father, mother and children live by themselves in urban apartments without all of their aunts, uncles and grandparents in the same household. In many cases there is only one child and the parents take great care of their "little emperors", but often enough there is no time to cook. Consequently, this creates market potentials for convenience food or daycare services.

One of the major trends is improved access for women to the labor market and an increasing number of women are starting to prioritize career over kids. They get better education and jobs and they become more financially independent. According to the available statistics they also tend to marry later, have their children later, and have fewer children. In economic terms this means they have more of their disposable income left to spend on products and services for themselves. It also means more business and turnover for restaurants, beauty products, home decoration, traveling and entertainment. In May 2012, "The Indian Express" reported in a survey which was conducted among 1200 married, young, working women and home makers in cities like Ahmedabad, Delhi, Bangalore, Chennai and Hyderabad. The results showed that around half of the working women in the poll had given up plans to start a family. In Delhi, 65 out of the 150 working women interviewed deliberately avoided to form a family, and two out of three working women in Mumbai expressed being averse to having a baby soon, as their career was the highest priority for the time being. However, this result is quite different from what you can still see every day on Indian TV. The most popular soap operas, for most Indians an almost daily dose of entertainment, depict women in a very traditional sense. They marry, they have children, they serve their families, and they learn how to arrange themselves with this destiny. The importance of family over individual aspirations is one of the strongest themes in these popular series. This is a sign that local traditions and values are prevailing, even though there is rapid change. Most families in India still meet over the weekend for traditional get togethers and common meals in order to celebrate the concept of the joint family. While the family as a unit is growing smaller, the feeling of belonging to a group is so important in India and South Asia that the joint family structure still prevails in many parts of society.

All across the large developing economies the majority of consumers are still in the early stages of satisfying desires for goods and services that are above their basic needs. However, as they become more affluent, spending patterns are changing quickly. There is more income, more women in the workforce, less children, more mobility, and more time and money for leisure, entertainment and shopping. These developments collude to create a rapidly growing segment in the population which can be more self-indulgent with their shopping activity. In a series of recent consumer surveys across the BRIC countries the number of those who want to spend more on personal care products for self-indulgence is quickly rising.

3.6 High Competition from Local and Global Champions

The race for a pole position in the growth markets is on. With an impressive line-up of global and local champion brands, there is a high competition for share of voice. Prices for prominent billboards or prime time TV commercials in Beijing, Mumbai or Moscow have become as high as in New York. Top global and local brands in each sector are competing for a limited number of prime media and broadcasting spots as well as prime store locations. Furthermore, research of global media agencies suggests that on average inhabitants of Shanghai are bombarded with around 3000 advertising messages per day, consequently information overload and a very selective perception by the target groups is the result. Moreover, due to the prices for media, many Western companies fall into the trap of communicating below the necessary level of perception. Building awareness and reputation in markets with tens or hundreds of millions of potential customers requires not only a smart strategy but also a sufficient level of investment. Media costs for brand building have risen sharply in recent years. As the development speed in many sectors can be substantially faster than in more established western markets, timing is important. First mover advantages can be realized if the timing is right. If this advantage is not realized, there is always the risk of being too late with a product or service idea as a key competitor has already built a solid awareness and preference. For example, a decade ago P&G started its high media investment strategy for its two flagship brands Head & Shoulders and Pantene. Initially, observers criticized these investments stating that P&G must lose hundreds of millions of dollars in the immature Chinese market. Today, even critical observers have acknowledges that the early foothold of the Cincinnati based consumer goods giant paid off; “P&G is so entrenched in China. They made the investments early and their brands have great cachet now” says Deutsche Bank analyst Bill Schmitz. Today, P&G is about double the size of Unilever in China and the P&G’s Head & Shoulders, Rejoice and Pantene brands are the top three shampoo brands, commanding a combined 33.2 % market share, according to Euromonitor data (Beattie 2012). In addition, local champion brands are exerting more and more competitive pressure. Many of them might be virtually unknown in the West, but they have served their home market many decades and understand the local culture and constrains very well. Therefore, the power of local heroes should not be underestimated—especially as governments are supporting local companies in more or less visible ways. Therefore, the major local brands need to be thoroughly analyzed and category killers need to be understood. And while positioning has to be more differentiated, good relationships with local authorities and administrations are key to a successful strategy. More details about the local champion landscape will be outlined in the different country chapters.

3.7 Lower Brand Knowledge and Experience

The consumers in the BRICs also share some common characteristics: Brand knowledge and experience is almost always lower. It cannot be assumed that Chinese or Russian middle class consumers have ever heard of a specific foreign brand, know its history and heritage or even when and how to use it. Therefore, it is crucial the take a step back and ask what the potential consumers actually need to know about the brand. The same is true for industrial clients in a business-to-business environment. Customer 'education' and storytelling regarding the heritage and history of a brand are important aspects to differentiate and to justify the substantial price premiums most foreign brands try to command. In this way, social media can prove to be a very important and powerful channel for brands to build connections with the target groups and convey more about brands than what can be expressed in a simple TV commercial.

3.8 High Digital and Mobile Affinity

In mobile and digital communication, the BRICs have become an unassailable powerhouse, with China, India, Russia and Brazil ranking among the most digitalized countries on the planet. In the latest global ranking by "360 Digital Influence", China, India, Brazil and Russia—in this order—are among the top seven countries with the most Internet users and the online population in these countries is rapidly increasing.

China now has more than 640 million Internet users which equals a penetration of about 50 % and is expected to hit the 700 million within 2015. This means, the People's Republic represents almost a quarter of the world's users. Brazil and Russia have reached a penetration of slightly more than 40 % while India is still behind with a penetration rate of just over 10 %. The new reality is that now together, the four BRIC countries represent 45.5 % of all the World's Internet users.

As a result of rising Internet penetration e-commerce is flourishing and China, according to the Boston Consulting Group, will likely have the largest population of online shoppers by 2015. Alibaba Group, China's largest e-commerce company, sells more merchandise than Amazon and eBay combined. And at $25 billion, Alibaba's initial public offering in September 2014 at the New York Stock Exchange was the largest global IPO ever.

In 2015, the number of online shoppers in China has reached 350 million, making the country the largest digital retail market in the world (Statista 2014). The expansion of the online universe in the country sustained its high growth rates while the financial crisis slowed the rest of the world down. The same is true for ad spending, where the BRICs are driving global growth with rates that are three to four times higher than in Europe. E-commerce has become a key growth sector in Russia and was recently "discovered" by institutional and state-backed funds for serious long-term investment. Meanwhile, Google's Youtube claims it is already more popular with India's youth than some youth channels such as MTV. The growth of social media in Latin America's largest country Brazil has taken off so fast that Sao Paulo is regarded by many as the social media capital of the world. Brazil's hyper-social culture, its large young population and its particular enthusiasm for the Internet are driving this massive trend. For Facebook, Brazil became the second largest market after the U.S. in early 2013.

There are several drivers that make large emerging markets the epicenter of the digital revolution. One of them is slowing growth, as export companies in the BRICs suffer from declining sales to Europe and the Americas, they will increasingly turn to their own e-commerce universe in the BRICs. Second, the cost of shopping ordered goods is much lower in emerging markets than in the West which creates an extra boost in e-commerce. Shipping a 1 kg parcel in China will cost around $1, compared to roughly $6 in the U.S. Third, in emerging countries service standards tend to be not as high as in Europe or the U.S. and serving luxury customers in a store can be a significant challenge, given the lack of qualified personnel. Consequently, online sales can bridge this gap, at least partly. Fourth, Western brands are starting to expand from larger and wealthier coastal areas into smaller cities in the interior parts, where there are few branded stores, but increasing income levels and demand for such goods. E-commerce can be the missing link, as building online channels for sales is a means of expansion that avoids heavy investment in store openings.

As far as mobile communication is concerned, China broke the world record in smartphone penetration long ago. The country has more active smartphone users than the U.S. and is estimated to reach 640 million mobile Internet users in 2015 (Statista 2013). This wide-spread mobile usage will have tremendous effects on the way online and offline commerce will be conducted and as a result completely new patterns with global repercussions will be developed. Electronic payment systems, online services and digital brand experience will be influenced on a global scale.

References

Antonova, V. (2007). *Diversity management and concepts of mulitculturalism in Russia*. New York City: Open Society Institute.

Beattie, A. C. (2012, October 29). Early foothold in China pays off. *Advertising Age*. Accessed January 03, 2015, from http://adage.com/article/special-report-pg-at-175/early-foothold-china-pays/237996/

Carnegie Papers. (2012, July). *In search of the global middle class*.

Deutsche Stiftung Weltbevölkerung. (2012). *DSW-Data Report 2012*.

Food and Agriculture Organization of the United Nations. (2011). Accessed January 01, 2015, from http://www.pdwb.de/nd18.htm

globeone. (2011, September). *BRIC branding survey*. Accessed January 01, 2015, from http://globe-one.com/1403-1403/

HSBC. (2012, October). *Consumer in 2050—The rise of the EM middle class*.

On Device Research.com. (2012, September 18). *The Great Indian consumer market—A close up view from an insider's perspective*. Accessed January 01, 2015, from https://ondeviceresearch.com/blog/the-great-indian-consumer-market-a-close-up-view-from-an-insiders-perspective

Roland Berger. (2012, June). *How to reach emerging markets consumers with new strategies*.

Statista. (2013). *Number of mobile internet users in China from 2009 to 2017*. Accessed December 30, 2014, from http://www.statista.com/statistics/265146/number-of-mobile-internet-users-in-china/

Statista. (2014). *E-commerce in China*. Accessed December 30, 2014, from http://www.statista.com/topics/1007/e-commerce-in-china/

Wall Street Journal. (2009, September 30). *India—A continent of an emerging market*.

WARC. (2012, June 27). *Coke adapts to mega-trends*.

Zhuang, G. (2011, October 05). The next generation of Chinese car buyers is looking for style. *Nielsen*. Accessed January 01, 2015, from http://www.nielsen.com/us/en/insights/news/2011/the-next-generation-of-chinese-car-buyers-are-looking-for-style.html

Part II

External Environment: Understanding the BRIC Markets as Foundation for Successful Marketing

4 China: Dancing with the Red Dragon

4.1 Introduction

China's economic miracle has several faces and names, one of them being Li Guilian. The 66 year old woman from Dalian has built a 300 million dollar garment company that opened its doors 1 year after China started its reforms back in 1978. Li is a Chinese version of the rags-to-riches tale, and there are many out there between Shanghai in the East and Chengdu in the West. Li is a descendant of a long line of farmers on the country's Eastern coast. When the People's Republic began to test free-market reforms, she spotted opportunity. With 85 fellow farmers she opened an apron and tablecloth factory in her home village of Yangshufang, stitching simple textiles exclusively for domestic use. Today, Li employs 10,000 workers sewing five million suits a year with most of them being made for American brands, including Banana Republic and Macy's. However, Li also created her own brand, Dayang Trands.

Her success earned her a call from Beijing and she is now one of 3000 members of the National People's Congress, China's version of a parliament. Her loyal customers include former President Hu Jintao, as well as U.S. billionaires Warren Buffett and Bill Gates. Companies in China—like Dayang—are supplying nearly half of the clothing in the United States and they are a major source of imports in Europe as well. Meanwhile, Dayang has contributed to making the port city of Dalian a vital link in the global garment supply chain. It offers Western brands cheap local manufacturing, enabling them to focus on their own strengths: developing designs, marketing their brands and retailing.

In 2012, the raspy-voiced "Chief Li" and her growing company all of a sudden found themselves in the eye of a storm. It broke out just ahead of the London Olympics, when U.S. Congressmen learnt that their national team's uniform—snappy blue blazers, white slacks and red skirts—designed by Ralph Lauren, had been manufactured in China and the manufacturer was none other than Dayang Trands. With American unemployment rates stubbornly high even 4 years after the financial crisis, the discovery created a major controversy in Washington, D.C..

N. Schaffmeister, *Brand Building and Marketing in Key Emerging Markets*,
Management for Professionals, DOI 10.1007/978-3-319-19482-0_4

Li was baffled; "Given the irreversible trend of globalization, the Chinese manufacturers and their American clients are playing different roles," she insisted, "they design, and we manufacture. We are partners not competitors. It is the cheaper labor in China that makes it possible for the U.S. consumers to buy high-quality products at lower prices" (Los Angeles Times 2012).

Since opening up to the outside world, China achieved an average annual growth rate of almost 10 %. When Deng Xiaoping, China's father of reform, began to dismantle farm collectives and to abolish the old planning and pricing system, China was one of the poorest countries in the world, poorer than India and many Sub Saharan African nations. Roughly 33 years later it is the second largest economy on the planet, with a gross domestic product of 7.3 trillion dollars, according to the World Bank. The disposable income of China's urban residents and the rural per capita net income have increased over the past decade by 152 % and 97 %, respectively and by the end of 2011, according to the National Bureau of Statistics in Beijing, over 250 million workers had migrated from rural areas of the country to the coastal boom centers. Following this massive migration, China's urbanization rate surpassed 50 % during the first quarter of 2012 and more than 500 million people were lifted out of poverty.

China has since become the leading car market, the number one steel exporter and the undisputed top supplier of manufactured goods. In the decade preceding 2005, its foreign trade with the world surged a staggering 400 %, from 281 billion to 1.5 trillion dollars. According to the U.S.-China Economic and Security Review Commission, the Middle Kingdom's exports to the U.S. quadrupled during the most recent decade to 399 billion dollars a year (US-China Business Council 2012). "Socialism with Chinese characteristics" has transformed the country into the world's factory and it has given China access to the top ranks of almost every global survey.

On its way to modernity the country has passed several critical and acclaimed milestones. In 2008, according to the Capgemini World Wealth Report, China boasted more millionaires than France (Business Week 2008). Four of the world's busiest airports are now in Greater China, with Beijing Capital International being close on the heels of Hartsfield-Jackson Airport in Atlanta (Airports Council International 2012). With Hong Kong and Shanghai, two of the world's most active real estate markets by volume are in China (Real Capital Analytics 2012). China now possesses not only the world's largest internet population but also the largest mobile phone market and luxury market, to name just a few. In 2009, China overtook Germany as the leading export economy. In the same year it surpassed the U.S. to become the world's leading car market and in the first quarter of 2010, the People's Republic surged ahead to become the second largest economy, replacing Japan. This is important for international brand advertisers, a China is now even the largest English-speaking nation with approximately 300 million people who are at least able to understand an English advertisement.

Giving proof to China's latest chapter—the beginning of its transition from a cheap manufacturer into a high-tech global competitor with its own brands—the country is now even climbing international rankings in industries of the future.

In the second quarter of 2010, China started to attract more asset financing in clean-energy technologies than Europe and the U.S. combined. It is now the world's largest exporter and importer of information and communications technology (UNCTAD 2012). Additionally, due to the rapidly growing presence of foreign companies' R&D facilities in the country, China—according to Deutsche Bank Research (2011)—"is now even a net exporter of R&D services to the EU." All this being said, it is clear that the tables are being turned on a global scale.

China has already entered the third phase of its epic economic journey of modernization. In its first stage, in the late 1970s and early 1980s, it de-collectivized agriculture, opened its doors to foreign investment and allowed entrepreneurs to start businesses. Most industries, however, remained state-owned. During the second stage of reforms, in the late 1980s and 1990s, price controls were lifted and privatization took off. By 2005 the private sector accounted for as much as 70 % of GDP. Urbanization on a massive scale, enormous productivity growth, a tsunami of foreign direct investment as well as a tidal wave of exports have fueled China's economic rise over the past two decades. This development has accelerated dramatically since the People's Republic joined the World Trade Organization in late 2001.

China's rapid ascent has resulted in enormous changes for the Chinese people; poverty was massively reduced, escalating income inequality created a huge urban-rural divide, and large parts of the environment are under heavy strain. China is now facing a series of key structural challenges. As the traditional engines of growth are weakening, the benefits of urbanization will hit diminishing returns. Additionally, old-age dependency is increasing and the labor force will start to shrink soon. In March of 2012, then, Vice Premier Li Keqiang stated that reforms in China have now entered "a crucial stage and cannot be delayed." What Li referred to, in an economic sense, is the structural adjustments that began halfway through the last decade and are now gaining steam with the current 5-year plan (2011–2015). China now needs to manage a fundamental shift from its dependence on exports and investment-driven growth to a more domestic consumption-driven model. It seems the country has now firmly committed to making the transition from an export-led growth model to one driven by domestic demand.

In this sense, the latest downturn of the world economy that started in 2012, and slowed China down to the lowest GDP growth in several years, is a "silver lining," as Tsinghua University professor Patrick Chovanec puts it (Seeking Alpha 2012). China, in his mind, "was due for a correction," because its investment boom has started to buckle under its own weight and is not sustainable; "Part of China's export-led growth model," says Chovanec "was to suppress consumption in order to maximize investment and then make up the difference through selling abroad. The Chinese economy is geared toward channeling resources away from the household sector and toward investors and producers to boost production and basically turbo-charge GDP growth." For Chovanec there is only one way to re-balance China's economy; "You have to channel those resources back to the household sector through changing exchange rate policy, interest rate policy, the tax policy."

His view is shared by Michael Pettis at the Beijing University's Guanghua School of Management; "The key to raising the consumption share of growth is to get household income to rise from its unprecedented low share of GDP." Pettis argues that the recent slowdown in China's growth will help boost this critical transition thus enabling China to sustain its rise as an emerging economic world power (Financial Times 2012a). However, household consumption numbers in China are still exceptionally low and globally, household consumption is about 65 % of GDP, with about 35 % going into investment. In China, as a percentage of GDP, private consumption is at half of international levels and by the end of this decade, if Daiwa Securities analysts are proven right, GDP per person in China's richest city, Shanghai, could be almost the same as the average American.

China's leadership seems to be keenly aware of this structural problem and the necessary adjustments are prominently addressed in the current 5-year plan. The 12th Five-Year Plan changes emphasize the need for the development of China's economy and society from "faster and better" to "better and faster". What looks like a rather semantic variation is in fact a dramatic re-arrangement of priorities with the focus now more on quality rather than on growth alone. Correcting the imbalance between investment and consumption is one of the top goals with rural annual per capita income now targeted to grow at 7 % annually, as fast as the economy itself. Based on the stated targets in the 5-year plan, McKinsey is expecting China "to get ready for the next stage" of its development.

The consulting company's forecast is simple and dramatic; "By 2015, we estimate that private consumption will catch up to, and then exceed, public investment" (McKinsey 2012). In its long-term outlook "China 2030: Building a Modern, Harmonious, and Creative High-Income Society"—the World Bank is even more optimistic. Even though it acknowledges "challenges" for China "that could ultimately slow growth," the organization is forecasting the share of consumption in GDP to rise "from 47 % in 2010 to 66 % in 2030" (World Bank 2013). The World Bank does not perceive the recent moderation of GDP growth in China to be a threat to its long-term outlook for the world's most populous country; "Even if growth moderates, China is likely to become a high-income economy and the world's largest economy before 2030." Something else of interest to note is that leading managers in U.S. companies and in the mining business, which depends very much on China's growth, are putting the slowing growth rates in perspective. When he presented his second quarter earnings numbers at the end of July 2012, Don Lindsay, the CEO of Teck Resources, Canada's largest diversified mining conglomerate, was asked about the slowdown in China. Lindsay tried to dispel concerns that slowing Chinese growth is a major threat to his business. According to the mining executive, 7 % GDP growth in China today (an incremental addition of $500 billion a year) is double the absolute growth that was created 5–7 years ago, when China's GDP was climbing by double digits.

The prevailing view among leading academics with good knowledge of China confirms this assessment. Many researchers expect that slower momentum in the economy over time will force China's leadership to go for growth that is both more robust and more sustainable. One such example is Peter Bottelier, the former chief of the World Bank's resident mission in Beijing and a senior adjunct professor of China Studies at the School of Advanced International Studies at Johns Hopkins University; "The heady days of double-digit growth in China are almost over," says Bottelier. He expects that as a consequence it will be somewhat easier to achieve the structural reforms that were laid out in the current five-year plan. According to Bottelier, "China, on balance, is headed in the right direction."

According to the McKinsey forecast, China will have added the equivalent of almost another two Germany's worth of GDP by 2020. In other words, never before during its massive reform process has China put more money into the pockets of its 1.4 billion citizens than it will during the next couple of years and there is ample proof that this strategic growth adjustment is already bearing fruit. The drivers of China's growth are now moving firmly west, from the urban boom centers along the coast, to the vast and underdeveloped rural hinterlands. According to China's state-owned news agency Xinhua (Want China Times 2012), in the first half of 2012, "the growth rate of Western China unprecedentedly outpaced the Eastern coastline." Among 31 provinces that released their GDP figures for the first 6 months of the year, Beijing and Shanghai came in at the bottom of the growth charts, while western provinces held seven of the ten best performer spots on the list.

It is no surprise then that China is getting ready for the "third wave" of development. After the initial market opening and labor reforms, followed by the second wave of capital and ownership reforms the "third wave" is about brand building and connecting with consumers. For China this means a fundamental shift, away from being the cheap assembly line for everybody else's brands to becoming a creator and marketer of its own. Based on the internationalization of many Chinese brands this will also imply "re-branding" China itself, from cheap manufacturer to innovator.

One of the first China experts to observe this fundamental transition was Kai-Alexander Schlevogt (China Business Review 2000). In an article for "The China Business Review" in the May/June edition of 2000, he described the coming "Branding Revolution in China." In Schlevogt's assessment, the brand consciousness development in the People's Republic "has passed through four distinctive eras." Central planning was followed by a momentous catch up period that itself turned into hyper-competition and then into post-industrialism. During the first two eras, Chinese managers firmly focused on supply and the attention then changed to the demand side during the latter two periods.

According to Schlevogt, production dictated China's resource allocation during the planned-economy era; "The visible hand of the PRC government assigned products to someone, somewhere, sometime; courting customers and creating competitive advantage through strong brands was unnecessary." Incentives for better performance varied during that era, depending on the recipient's place in the hierarchy. It could be promotions to senior levels, improved access to resources for even more production, or it could be bonuses, dinners and food.

During the catch-up era companies simply outdid each other by securing capital and technology; "They could sell everything they produced to a virgin market with huge pent-up demand." In this second stage of the reform process, the pressure to build brands was still very low. Schlevogt offers a very telling example from these days in China; When Japan volunteered to donate content from their TV programs to Chinese broadcasters, they asked for free advertising space in exchange. The Chinese negotiators agreed right away, believing they had struck a phenomenal bargain. However, in the end, the deal opened the floodgates for Japanese brands to get free advertising time in front of tens of millions of Chinese viewers. "The Trojan horse stratagem," as Schlevogt called it, "created strong competitive positions" for the Japanese that were later difficult to assail.

What followed in the 1990s was hyper-competition, as factories with similar technology and products with comparable features flooded the young consumer markets. Distribution, sales and after-sales remained poor. Retailers stuffed their shelves with no-name products that did not connect well with consumers and just waited to be chosen at random. Since price became the main competitive distinction, ferocious discounting wars followed and as more and more international brands entered the local markets, Chinese entrepreneurs were challenged. Now they needed to grow their companies and to start developing their own brands. At the same time, new market segments emerged and consumer behavior changed. Gone were the uniform customers of the Maoist era as tastes and purchasing motifs started to differ. The super-rich wanted cars, jewelry and luxury watches, even if they cost several thousand dollars and "You are what you buy," became the new mantra for the super-rich.

The transition to the fourth era of post industrialization started early last decade. The emerging middle-class, meanwhile, was craving cosmetics, handbags, and nice clothing. Rising consumer demands, an increase in franchising and more sophisticated local players were the result. China's admittance into the WTO also further increased foreign competition. In this new period, companies were forced to migrate into higher value-added production and to take the first steps regarding the creation of brands for individual products. Putting the product on the shelf alone didn't guarantee success any more. Investment in ongoing and flashy advertising became a prerequisite to be noticed. "Major Chinese provinces" as observed by Schlevogt, started to "regularly hold best-brands exhibitions and contests such as the China Jiangsu Fair of Celebrated Brands." With all of these changes it was clear that the era of Chinese brands had begun.

In the latest phase of development, China is quickly developing towards a "brand and innovation driven economy". The emerging middle class has turned into a real middle class that asks for premium products which fuels the demand for global and local premium products. Quality is no longer a strong differentiator and corporations need to respond with brands that are much more targeted to a specific segment catering to more individualized needs. Additionally, brands now need clear positioning, an attractive value proposition, a story, a history, and a particular character to be successful. Standing out is not just desirable—in many cases it is necessary for survival as there are massive overcapacities present in many industries.

In food and beverages, telecommunication, white goods, chemistry, financial services, engineering and various other B2B sectors strong local players have emerged. These players—many of them being closely linked to the state—have increased their competitiveness and are hungry for investments outside of China.

	Supply orientation		Demand orientation		Brand leadership orientation
	Planned economy 1949- 78	„Catching up-phase" 1980s	Hyper competition 1990s	Post industrialization 2000s	Brand and innovation economy 2010-
Main characteristics	• Centralized allocation of resources • State-owned production	• Price reform • Property reform • Market opening	• Oversupply of comparable goods • Strong competition • New customer segments • Change of preferences	• High consumer demand • Increase of franchising contracts • Experienced local companies start internationalization • Increase of foreign competition after China´s WTO entry	• Rapid middle class growth and demand for premium products • Rise of local brand champions in many sectors (e.g. food, telecom, construction) • Focus on professional brand management with special focus on corporate umbrella brand • Focus on innovation & digital opportunities • Push towards internationalization of Chinese hero brands and utilization of domestic market potential as basis for international expansion
Success factors	• Achievement of production goals • Achievement of political and social guidelines	• Acquirement of technology and assets to meet the growing demands of the population	• Growing company size • Focus on awareness building and building of sales capacities	• Initial brand building for single products and intensive advertising • Transformation into a value-adding production • Focus on economic value and sector consolidation	• Utilization of advanced brand development techniques • Substantial investments into brand building, advanced technology and intellectual property • Meeting needs of local middle class (esp. individualization, trading-up, quality) • Acquisition of successful foreign players that own relevant technology • Rapid digitalization of business and embracing e-commerce and m-commerce

Fig. 4.1 China's development from a centrally planned economy to a brand and innovation economy. *Source:* globeone (2015) based on Schlevogt (2000)

There is also increased focus on developing company specific innovations and protecting intellectual property. There is also rising sophistication and big investment in terms of brand building—usually facilitated by large global advertising groups and their local agencies. Furthermore, China has shown that it can successfully manage acquisitions of major brands like Volvo or the PC business of IBM through dealing very carefully with management and the brand. In terms of development, the focus in the current stage of development clearly is on individualization, trading-up, offering superior service and more expensive premium products. Additionally, many Chinese companies and their management are very open to digital solutions and quickly embrace the opportunities that digital and mobile applications offer them. The big question of the future will be; Will China also be successful in turning its economy as green and sustainable as outlined in the latest 5-year-plan by China's central government. The following Fig. 4.1 provides a brief overview of the different phases including the latest stage of a "brand and innovation economy".

4.2 The Rise of Chinese Champion Brands

China's leading telecom player Huawei snatched Ericsson's crown as the world's top supplier of telecom hardware and software some time between April and June 2012. Shortly before it reached that milestone, Huawei made a stylish announcement. During the Mobile World Congress in Spain in March, Huawei erected a 19-foot statue of Pegasus, the winged horse which is one of the best known creatures in Greek mythology. The Pegasus was set up in the sprawling Fira exhibition center in Barcelona, which hosted the mobile congress. The Huawei statue was crafted from 3500 of the company's latest mobile phones and looked like a piece of high tech art. However, in hindsight it rather appeared to be a well-timed demonstration of the company's new global superiority.

A more formal announcement of Huawei's new international leadership followed soon after the congress in Barcelona in July when the company published its results for the first half of the year reporting revenue of $16.1 billion. Ericsson was knocked off the podium after reporting $15.25 billion in revenue and while Ericsson suffered a drop in sales during the first half of 2012, Huawei registered 15 % growth. The fashion in which Huawei overtook Ericsson as the world's leading telecom player back in 2012 is yet another sign of how the center of gravity in the global economy is shifting rapidly towards the large emerging markets. While Ericsson sold half of its stake in its joint-venture with Sony Ericsson to consolidate its business in the face of slowing growth in the developed world, Huawei pushed ahead in the enterprise technology and mobile devices sector and continued its aggressive expansion into the terminals market.

Huawei, founded in 1988, by a former People's Liberation Army officer with $4000 in cash, has risen quickly from "copycat to innovator," as the Business Insider put it (Business Insider 2010a), and on to the new global leader in the telecom sector. In 2008, Huawei filed more patents than any other company in the world, a staggering 1737 applications. Early last decade, it had already started to accelerate its advance into Europe, where it established its first office back in 2000. Now, Huawei employs 3000 people on the continent, 60 % of whom are recruited locally. Huawei Europe offers one of the most complete product portfolios in the industry and is now powering ahead in the handset business, attacking Apple and Google's Android operating system head-on. According to Huawei, its Ascend features both the fastest and the thinnest mobile device available on a market that is characterized by brutal competition. The phone's processor is an in-house design by Huawei Hisilicon. Given the fact that about 45 % of Huawei's employees are working in R&D, there is certainly more to come.

Huawei did not remain the sole Chinese company to grab the top spot globally in a technology sector. During the second half of 2012, China's largest computer maker Lenovo—with a 30 % share in the domestic PC market—overtook Hewlett-Packard as the world's leading PC brand in terms of sales. The year before, Lenovo had already risen to become the world's #2 PC vendor. In the third quarter of 2012 it had a 15.7 % global market share, a tiny 0.2 % points ahead of HP's 15.5 % (ZDNet 2012). The company's world-wide PC shipments rose 24 % in the 3 months leading up to June 2012, compared with a 2 % decline in industry wide deliveries.

Lenovo is on its way to becoming a household brand in Europe as well as in the United States. Its success in recent years highlights the advancement of China's technology firms onto the world stage. Their success is due to a combination of aggressive pricing, overseas acquisitions and a rapidly growing home market.

Lenovo's rise has certainly been helped by its purchase of Germany's Medion, as well as a joint venture with Japan's NEC and the acquisition of IBM's PC business back in 2005.

"Made in China" brands are not only on the threshold of becoming truly global, they are ambitiously gunning for top spots in global rankings, while overcoming their well-known growing pains. Headlines on tainted infant formulas and toys that carried dangerous doses of lead have illustrated that many of them are not yet ready to compete overseas through quality, innovation and brand leadership, rather than by corner cutting, pricing and cheap design. However, a growing list of Chinese companies have made the transition from boring state-owned enterprises with shoddy goods and services to reliable brands that manage to focus on their customers' needs and make use of their massive home market to emerge onto the world stage.

Among them is China Mobile, the world's largest telecommunications provider with 807 million customers as of December 2014. China Mobile, formed in 1997, is listed in New York and Hong Kong and is currently trying hard to increase its share of consumer wireless data transmissions with its app store "Mobile Market". Additionally, it is speeding up in-store transactions and simplifying bill payments. As a result, the customer base continues to grow, because the company is expanding its network into China's second-tier cities and even further into the vast hinterlands. China Mobile ranked 3rd in BrandZ's 2015 brand ranking. Its brand value is estimated at $55.9 billion—just behind Tencent & Alibaba. Hard on China Mobile's heels, are four major Chinese banks, among them the Industrial and Commercial Bank of China (ICBC) ranking 4th, making it the world's largest bank in terms of market capitalization.

Baidu, the largest search engine in China—second only to Google worldwide—ranks already 5th on the 2015 BrandZ list. In addition to its search engine, Baidu is growing quickly with knowledge-based products and services, community platforms and its user-created Baidu Encyclopedia. The People's Republic's largest insurance company, China Life, state-owned petroleum and petrochemical supplier Sinopec as well as revenue-giant PetroChina are also featuring prominently on the list.

However, many of the current "global brand rankings" overestimate the international exposure of Chinese brands. This is mainly because these rankings are based on financial performance that is mainly driven by the business growth back home in China. A recent survey that globeone conducted in summer 2013 confirms this finding. In this representative study, we investigated for the first time the image of brands from China, India, Brazil, Russia and South Korea in Germany. 1000 German consumers were interviewed by an independent market research institute to better understand the performance of the 65 top emerging market brands.

The results were striking, German consumers are still rather unfamiliar with Chinese brands as only 17 % of respondents were able to spontaneously recall at least one Chinese brand. Regarding aided recognition, China's most well-known brands in Germany are Volvo (96 %), Lenovo (62 %), Huawei (44 %) and Air China (31 %). All other brands ranked extremely low in terms of awareness and related image (globeone 2013a).

In addition, there is another issue with Chinese brands that will at least slow down the global expansion. The problem is that a very large share of German consumers mistrust Chinese brands and see China as a competitor of German industry in general. The authoritarian political leadership, an agenda that is very much focused on the opportunistic support of national interests and a good portion of cultural distance are setting up additional barriers for China's global expansion dreams. Perhaps the most significant issue for Chinese brands is consumers' perception of quality. Only 12 % of respondents associate Chinese products with "excellent quality," which is the lowest result of all countries surveyed. All in all, results show that companies from BRIC countries—and Chinese brands in particular—have much work to do in building up the image of their brands in the EU and in Germany in particular. Besides a keen desire to go global, building global brand reputation also requires considerable time and investment.

A list by the Business Insider, one of the leading US business blogs, is featuring ten Chinese brands that are "set to take over US households by 2020." Among the featured Chinese companies is household appliance maker Haier, which in 2001 became the first Chinese company to create jobs in the US by opening a branch in Camden, South Carolina. In 2008, Haier rose to become the world's fourth-largest appliance company. Haier is in the footsteps of Huizhou-based TCL, China's leading maker of televisions. TCL has opened an R&D center in the Silicon Valley in 2011 and is now ranked No. 5 globally for LCD TVs. Haier quickly made inroads into the US market with niche products such as mini fridges for hotel rooms and college dorms.

Yet another effort to gauge the rise of China's brands was undertaken by Credit Suisse in 2010. The bank identified "27 Great Brands of Tomorrow," products that are supposed to "significantly outperform the market over the next 3–5 years as they build and leverage brand equity to grow in size, scale and profitability" (Credit Suisse Research Institute 2010). Credit Suisse presented five Chinese hopefuls in this portfolio. Topping the list was Alibaba, China's Business-to-Business eCommerce pioneer, followed by China Merchants Bank, which, as a retail bank, sees its business boosted by deregulation and increased borrowing by Chinese consumers. Next in line were athletic footwear brand Li Ning, founded by China's most famous Olympic legend by the same name, instant noodle maker Tongyi, and brewery giant Tsingtao Beer, which was started by German immigrants in 1903.

Tsingtao, based in Shandong province, will open its first overseas plant in 2015 in Thailand. For Tsingtao Chairman Jin Zhiguo, this is a significant step towards globalization for the century-old brand. "The exploration of the Southeast Asian market will be the first step for Tsingtao beer in the quest to expand to European and Oceania markets," he said in an interview. Tsingtao is one of the first examples of Chinese brands increasingly employing Hollywood to help advance their expansion into overseas markets. In the American drama "Gran Torino," directed, produced by and starring Clint Eastwood features a widowed Korean War veteran, who is alienated from his family and angry at the world. In the movie Eastwood is tossing back a bottle of Tsingtao at one point. After Tsingtao's early entry into the U.S. in

1972, Tsingtao Lager quickly became the No. 1 selling Chinese beer in the States and the top consumer product exported from the Chinese Mainland.

The latest example of a Chinese brand hooking up with Hollywood in order to raise its profile is Shuhua milk. In the robot-blockbuster “Transformers,” a scientist who is rushed into action by the main character of the film complains because he first wants to empty his box of Shuhua milk. After having dominated world manufacturing since early last decade, more and more Chinese companies are now starting to establish their presence abroad. They want to upgrade their “Made in China” reputation, and they are encouraged by their government to do so. Beijing wants these companies to grow beyond their fiendishly competitive domestic markets, which put constant pressure on prices. Branding their products and services overseas will force these companies to innovate, improve and thus become more profitable.

4.3 From Cheap to Classy

Appliance and electronics giant Haier is accelerating its foray into Europe for exactly this reason. The company wants to expand with higher-end products in order to help upgrade its reputation and sell higher-yielding products. By 2015, Haier is seeking five percent market share for washing machines and refrigerators in Europe. We need to “develop products that speak to European tastes,” explained Rene Aubertin at Haier’s European office in early 2012 (Agence France Presse 2012).

China’s cell phone makers are under similar pressure as they are not yet competitive enough to succeed in the high-end market, but at the same time they are reluctant to stay in the low-end market for too long. In China, they take up 50 % of the domestic smartphone market, but 99 % of the profit goes to Western brands like Apple and Samsung.

Among the rising number of Chinese brands that try to establish a beachhead in Europe or the U.S. are phone makers like ZTE, which made a series of deals with American carriers for its low-cost smartphones, and automaker BYD—partly backed by Warren Buffett—which set up shop in Los Angeles in 2011. So far, smartphone maker ZTE is not one of the Chinese brand names you hear a lot about in Europe or the U.S., but ZTE is about to change that. The company, founded in 1985, is currently China’s leading telecom equipment provider in terms of capitalization and revenue. ZTE sold 40 million smartphones in 2013, and it wants to become the No. 3 smartphone and mobile phone vendor in the world by 2015.

With so many Chinese brands popping up on the international radar, observers are tempted to believe that going global is moving into a more mature phase. In fact, during the first quarter of 2012, China’s outbound investments more than doubled to $21.4 billion. One of the main drivers behind this surge is state-owned enterprises cornering the maximum number of deals. Another strong reason is China’s slowing economy, which is reducing corporate profits at home and forcing companies to create elaborate strategies for growth beyond their domestic market. In early 2012, the National People's Congress identified key target industries for internationalization as: IT, energy, mining, automotive, home appliances, financials, equipment manufacturing, construction, internet and medicine. The biggest headlines are usually created by China's energy conglomerates, which want to gain control of even more resources to secure supply for China's long-term growth plans.

However, in many cases, often completely under the radar and unreported, Chinese brands are struggling to replicate their home success in overseas markets. By far, not every Chinese brand is a rising international star. One of the main reasons is corporate Chinese culture; "Like government, like corporation, Chinese firms want to micromanage and approve everything before anything can be done, and by that time, they have lost their initiative and end up on the defense instead of offense," explained Justin Knapp, director of Ogilvy PR's China outbound practice based in Beijing (Campaign Asia 2012). Often enough, Chinese brands are still suffering from low global trust, mostly in terms of the quality they have to offer. One of the most spectacular examples was the "Brilliance BS6," which in 2007 became the first Chinese passenger sedan to enter European markets. The car was well positioned as a premium-style import sedan at a budget price. However, the mandatory crash test, which was conducted at Germany's ADAC automobile club, ended with catastrophic results. The simulation of a 40 mph frontal collision showed the A-pillar collapsing and folding like a cheap suitcase and the impact forced the driver's door to pop out of its frame. China's car producers have since been struggling in European and U.S. markets to prove that they have moved beyond the stage where they can merely produce cars in joint ventures with foreign partners. Since the days of the BS6 disaster, China's automotive brands have accelerated global acquisitions and their buying spree is geared towards acquiring recognized, valuable brands and towards absorbing talents as well as development and brand management expertise. China's government has set aside $15 billion to execute a "go global" initiative for acquisitions of leading companies and brands. Some progressive observers even expect that by 2025, Chinese investors may acquire two dozen of the Fortune 500 companies.

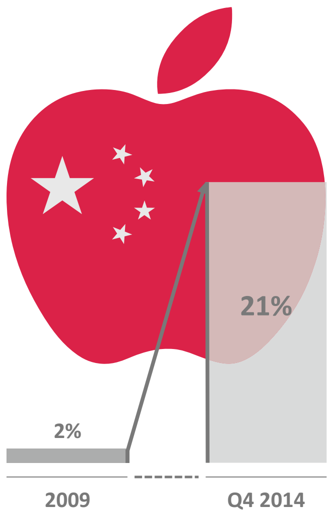
4.4 High Global Competition

China's market for consumer goods are growing in leaps and bounds, even if the pace of overall GDP growth has slowed down recently. This growth has been stimulated by a staggering rise in disposable income and by continuing urbanization. According to figures from the National Bureau of Statistics, China's average disposable income grew by 13.3 % during the first half of 2012. Even after inflation, this represents growth of 9.7 %. The competition for customers in the Middle Kingdom has become increasingly intense, particularly since companies in Europe are facing stagnation at home and need to uphold their growth rates by adding capacity in emerging markets. In China, they can not only count on a rapidly growing number of middle-class consumers in second-tier cities and further inland in China's West, but also on a growing number of urban Chinese trading up on what they consume because of rising incomes. Nonetheless, “there is evidence,” as HSBC bank recently put it in a Global Research paper, “that more consumers are aspiring to own imported brands, with some finding ways to compete with the lower-priced local rivals without compromising on image” (HSBC Global Research 2011).

Western brands like Adidas and Nike both have more than 7000 stores in China. Global retail giants have crowded its supermarket sector, with Wal-Mart having established the largest footprint. By the end of 2010, Wal-Mart had 219 stores in over 100 cities generating revenues of 40 billion RMB (€5.1 billion). Carrefour had 182 stores and 42 billion RMB in revenue. The rush into the Chinese market was so massive and quick that by 2005, Changsha, a city of two million in Hunan close to where Mao Zedong was born, counted 40 hyper markets with a total retail space of 10,000 m^2. The massive expansion and the skyrocketing rent prices for retail space also caused the first victims. For example, Britain’s Tesco announced in August 2013 that it will sell 80 % of its business to its biggest Chinese competitor, the state-owned China Resource Enterprise. According to the Guardian report, this is bringing “its 9-year solo venture in China to an end at a cost of up to £1.5bn—making it the grocer’s latest aggressive international expansion to unravel”.

For America’s tech juggernaut Apple, China has gone from an “after-thought” to the second largest market in almost no-time. As shown in Fig. 4.2, The proportion of Apple’s revenues that are derived from China rose from 2 % in 2009, to 21 % in the fourth quarter of 2014. In Q4 2014, China contributed $16.1 billion dollars to Apple’s 74.5 overall sales due to the new iPhone6 that sold very well. This represented a 70 % growth over the same quarter in the previous year. In the previous years, a series of accidents and suicides at its main Chinese contract-manufacturer, Foxconn, had drawn a lot of unwanted attention so that Apple’s CEO Tim Cook was compelled to pay Foxconn a personal visit and to promise higher

Fig. 4.2 China’s share of the apple. *Source:* globeone with data from Spiegel Online (2015)



wages and better working conditions for its workers. The latest concerns that Chinese authorities voiced in 2014 are about safety issues that relate to the storage, location and movement of data from the phone user.

America's fast food giants committed to China very early, with good results. YUM! has been much more successful than just about any U.S. company in China. More than 4500 China-based KFCs and Pizza Huts provide about half of YUM's operating profit. While the company's profits and sales declined in the U.S. during the first quarter of 2012, YUM's China restaurants reported 21 % same-store sales growth. Meanwhile, McDonald's, the world's largest restaurant chain, increased the number of its stores in China from 1300 to 2000 in the 2 years leading up to 2013. In 2011 alone, the company recruited another 50,000 employees in China. Sandwich giant Subway is also expanding the number of its restaurants from 318 in July 2012 to 900 by the end of 2015.

Germany's car companies are no less ambitious in China. Volkswagen has reorganized its board of management in the spring of 2012 to add a new board function for China. The responsibility rests with President and CEO of Volkswagen China, Jochem Heizmann, who was promoted to this post as part of Volkswagen's strategy to raise its production capacity in the People's Republic by 74 % to four million cars by 2018. For Volkswagen, China has long been the largest sales region in the world. China is now the group's location with the most manufacturing sites. Together with its joint venture partners, Volkswagen wants to invest more than €14 billion in China by 2016. China—next to the U.S.—is key for the German company if it is to soar to the top of the automotive industry by 2018.

Bayerische Motorenwerke (BMW) is currently doubling its capacity in China. In Tiexi at its existing Shenyang site, the company opened its second plant in China in May 2012. Together with its local partner Brilliance China Automotive, BMW is manufacturing the extended wheelbase version of the new BMW 3 Series Sedan, alongside the BMW X1. During the June quarter of 2012, BMW delivered 79,140 cars in mainland China, almost as many as it did in the much more established U.S. market. While in China sales numbers rose by 25 % during the quarter, they were 5.4 % for the group and for the U.S. market. German OEMs, together with other European and U.S. automotive OEMs, are not only expanding their manufacturing capacity in the People's Republic but also are increasingly bolstering their R&D capacity as well.

In July 2012, Thomas Weber, the member of the board of management at Daimler who is responsible for group research and development, announced in an interview that the Stuttgart-based company wants to locate more and more R&D capacity in emerging markets. Action followed quickly as Mercedes "Advanced Design Center" based in Beijing already started its operation in late 2014.

Many North American and European companies discovered early on that China is not a monolithic market and they are quickly adding new models for a more discerning Chinese consumer. Twelve years ago, General Motors offered just a handful of car models in China and most of them were large passenger vehicles, with high-end Buicks costing around $40,000. By the mid of the last decade, GM offered a fast-expanding range of models, from $75,000-plus Cadillac SRX sport-utility vehicles, to the $12,000 Aveo hatchback. By 2012, GM ran 11 joint ventures in the country with 35,000 employees, and it sold a new car every 12 seconds. At the Auto China exhibition in 2012, GM showcased 41 production and concept vehicles and it plans to launch 60 new models within the next 5 years.

In the fashion industry, there is already a second wave underway. Following the rather early entry of luxury labels like Gucci, Mulberry and Louis Vuitton, more affordable brands like Sweden's H&M, Gap and Forever 21 have entered an apparel market that was worth $243 billion in 2011 (not far behind the U.S. at $331 billion). Many of these brands are entering the market for the first time and their prospects are good, even with lower GDP growth rates for the foreseeable future. Euromonitor is forecasting growth in this market of 14 % per annum until 2016 and shopping mall space is going to equal European levels within a decade. In order to tap this growing market, and to weather weak economies back home in the Europe, Japan or the U.S., Sweden's H&M, Spain's ZARA, Japan's Uniqlo as well as Gap are all rushing to open more and more stores in the booming Tier 2 cities.

China is now entering a period, where foreign brands need to grow in order to keep up their global expansion, while more and more Chinese companies are beginning to understand the essence of what makes a successful brand and are learning quickly how to communicate and sell them to their customers. In the process, the competition between Chinese brands and foreign brands will get more and more fierce. According to the Harvard Business Review, more than 30,000 new consumer products worldwide are launched every year, many of them in emerging countries like China. For European and American companies this results in growing competition, but also in improved chances. There are two main reasons for this; First, China offers better prospects for many global companies than the economies of their home markets, even at GDP growth below 7 %. International banks, for example, reaped a record profit from their Chinese operations in 2011, and most of them are forecasting annual growth of around 20 % until 2015, according to a survey by PricewaterhouseCoopers.

Second, the power of brands is even stronger in emerging markets and it is easier to build them in countries like China, India or Brazil than in established and mature markets in the West. In "The Global Battle for Consumers' Spending," Morgan Stanley Smith Barney published the results of a survey that shows brand power across national markets (Morgan Stanley Smith Barney, 2012). According to the May 2012 survey, 57 % of consumers in China are convinced that brands make a positive contribution to their lives, as compared to 8 % in Europe and 5 % in the U.S. In particular, China's "Golden Youth"—young urban college graduates, mostly women, with relatively high standards of living—are significantly more open to buying new brands.

With China continuing its rise as a major economic power, there are a growing number of large international events where companies can raise their profile by promoting their products. The 2008 summer Olympics were one of the largest marketing opportunities in the country's history and more are to follow. With 1.3 billion citizens that are crazy about sports, increasingly affluent and eager to spend on new consumer goods, dozens of multinational companies tied their products to the 2008 Beijing Games. Coca-Cola, McDonald's and Samsung each laid out as much as $100 million to be global sponsors at the Olympics. Figure 4.3 shows a picture of the Olympic opening ceremony at Beijing's iconic Bird's Nest National Stadium.

China is not only about size and a rising middle class. Its long march towards more open markets has made it much easier to start a new company. Megatrends expert and future studies author John Naisbitt even claimed in an interview, "they are the better entrepreneurs, two thirds of China's economy is private. In Europe, on the contrary, the political environment is increasingly hostile for start-ups" (Naisbitt 2010). However, it may not be quite that simple any more, since China's growth is slowing down to more moderate rates and there are still quite a number obstacles for foreign companies doing business in China. They include protectionism, rising labor costs, costly and slow certifications, a nebulous regulatory environment as well as a poor IPR enforcement.

Foreign brands can even be buffeted by unexpected legal crosswinds, like Apple with its local contractor Foxconn after issues with excessive working hours, unpaid overtime and health as well as safety shortcomings were revealed in late 2011 and early 2012. In some of the worst cases, foreign companies decided to leave China altogether. It happened to Germany's leading home improvement chain Obi. The retailer, with only 13 of its planned 100 stores in China up and running, decided to leave in 2005 after a fall-out with its local business partner Haier and the departure of its Chinese management team. Under these circumstances, the retail war with the

Fig. 4.3 China back on the world stage: Opening ceremony of the 2008 Beijing Olympics at the National Stadium. *Source:* Schaffmeister (2008)

likes of Britain's Kingfisher and a rising tide of Chinese competitors couldn't be won. "The orange beaver," as one German magazine put it, referring to the logos of the involved companies, "was defeated by the red dragon."

In the years to come, China will become an even bigger challenge for those companies that do not decide to set up shop in the country. One of the current megatrends in the global economy is China's rising presence in overseas markets. In this sense, China's rise not only means increased competition for energy and other resources but also a wave of takeovers by expanding companies from the People's Republic will challenge Western export juggernauts like Germany directly. German companies, as well as their competitors in the U.S., the UK, Italy or France will have only two options and it looks like they will need to pursue both of them. The first, to push for more growth at home in their domestic markets, will be difficult because of a shrinking and greying society, as well as new competitors from emerging countries. The second, to expand into emerging markets like China, would help them to learn how to duke it out with their future competitors on their own turf.

This aspect is even more critical, because China will become a technological and managerial trendsetter in many industries. Companies who shy away from this challenge might find themselves wiped out by a new type of "low cost & high quality" competition. One of the best ways to avoid that is to make China not only a manufacturing and distribution hub within the global corporate network but also a R&D center, to better open up local markets with products that are tailored and fine-tuned to local preferences and requirements. In a study by Deutsche Bank (2011), it was revealed that aspiring emerging markets like China and India are already drawing in a significant number of R&D facilities run by overseas companies, and the trend continues. According to Deutsche Bank, the share of the overall R&D budget spent by German companies on external research assignments doubled to 20 % over the last 20 years. Research following production has clearly accelerated during the most recent years and by the time the study was published, Siemens employed some 350 scientists and experts at facilities in BRIC countries. The number represented 19 % of the electronics giant's worldwide research team.

International companies have already built up R&D capacity in China to such an extent that according to the OECD, roughly 30 % of overall R&D spending in China is by foreign investors and their subsidiaries. The number of foreign R&D facilities in China rose from 700 in 2004 to 1200 four years later. Supported by the government and by state-owned banks, Chinese companies are also starting to flex their own R&D muscles. China's R&D expenditure is rising four times as fast as those in the U.S., as reported in the "2011 Global R&D Funding Forecast" by R&D company Battelle. In absolute terms, China's R&D budget is now growing as fast as that in the U.S., on the order of around $10 billion per year.

According to Battelle, China has surpassed Japan as the second largest source of R&D spending in 2011. In terms of R&D spending intensity, it has leapfrogged countries like Spain and Italy. A good part of that progress is due to the rapidly increasing R&D investments of multinational companies in China. Some of their local developments and innovations are starting to make their way from China into global R&D and supply chains to complement research activities back home. According to a Deutsche Bank study there are “first indications of a fast-growing transfer of knowledge and innovations from emerging markets back to industrial nations.” The magnitude of this trend can hardly be overestimated. Between 2004 and 2008 alone, R&D services imported into Germany from China within the corporate sector rose by 431 %. For the first time ever, China is now a net exporter of R&D services to the European Union.

The consequences are extremely far-reaching and need to be incorporated not only into the overall business strategies but also into the marketing & brand strategies for the Chinese market. In the future, new products and technologies won’t automatically be developed in the West and copied in the East. The international flow of innovations could be completely turned on its head in several critical industries. China’s forays into high-speed rail (just think about the merger of the two Chinese rail corporations CSR and CNR to form the new conglomerate CRRN in December 2014), electric cars as well as China’s dominance of the solar and wind energy markets are the first strong evidence of this.

4.5 Overall Income Structure in China

Read the most recent Hurun Wealth Report and you might be forgiven if you mistake China for a millionaires’ paradise with some tentative socialist credentials. The Hurun report has been released annually since 2009 and illustrates that one of the fastest growing assets in the People’s Republic is its capitalist elite.

In 2012, for the first time Chinese individuals with more than RMB 10 million ($1.6 million) broke through the one million mark. In the following year 2013, their number reached 1.05 million. That was a more moderate increase of 3 % over 2012. Hovering above this financial elite is a tiny layer of super-rich Chinese who own assets of more than RMB 100 million each. From 2012 to 2013, this ultra-wealthy group grew by 2 % to almost 64,500 people. In other words, for every 1300 people in China, there exists one millionaire. These millionaires reside primarily in Beijing, Guangdong, Shanghai or Zhejiang. In order to gauge their wealth, the Hurun report takes into account both fixed assets and investable assets (Hurun 2013).

For most of the time until late last decade, the boom in China has come primarily to the metropolises in the industrial clusters along the coast. As a result, the upper 10 % of earners have made a quantum leap. Since 2005, their income has spiraled upwards a staggering 255 %. By 2012, 35 % of the total income generated by Chinese households was accounted for by this upper 10 % group. Beijing is home to the highest number of China’s wealthy, with 184,000 millionaires and 10,700 super-rich. It is also no secret how they made their riches: Real estate, corporate success, hard work—and good connections to the political elites. According to the National Bureau of Statistics, in 2010 alone, property prices in China’s largest cities rose by 13.7 %. Luxury property prices in Shanghai were even up 21 % during the year. China’s real estate market became so overheated in the process that the government finally stepped in and has since tried to bring the market down to a more sustainable path.

How do China's rich spend their money besides buying property? First of all, they like to travel. Travelling has become the biggest area of consumption for China's millionaires. According to a report, they spend an average of 20 days a year away from home. Sanya on Hainan Island as well as Hong Kong and Yunnan are the top three destinations within China. The most popular international destinations continue to be France, followed by the U.S. and Singapore. Although their economy started to slow down in the first half of 2012, 39 million Chinese travelers packed their bags and visited wellness temples in Bali, shopping malls in Dubai and Paris, or the beaches in Thailand. During the Chinese New Year holiday in 2012, tourists from the mainland spent more than $7 billion overseas. It has been estimated that more than 50 % of Chinese consumers' luxury purchases are made abroad. As a consequence, some luxury brands are already reaping up to 30 % of their home country revenue from Chinese tourists.

Tony Tyler, the director general at the International Air Transport Association (IATA), projected in late 2012 that by early next decade the airline industry will have to handle another one billion travelers, mostly due to the rise of China's middle class. China's airlines booked half of the industry's worldwide profit of $8 billion in 2011. The swelling ranks of China's millionaires and the rapid growth of the affluent consumer segment in the country are also fueling the luxury e-commerce market. In 2012, it surpassed $3 billion in China and the country is on its way to become the world's largest luxury e-commerce market by 2015. Thanks to the strong emphasis on education in China, there is a growing preference for the rich to send their children abroad to enroll in schools or universities.

The Hurun report uses media investment in order to identify the top luxury brands across different categories. Cosmetics are ranked first, followed by alcohol, property, jewels and watches. No wonder, that selling luxury brands in China is great business. China has risen to become the second largest luxury market worldwide, only behind the U.S. but according to the Boston Consulting Group this will change within 5 years. No matter where they go and shop—be it on Shanghai's Huaihai Lu, or along Beijing's Wangfujing—China's rich want to show everybody else how much they can afford to spend. They park their prestigious cars on public walkways, they own the latest tech gadgets, or they shout their order for high-priced bottles of champagne across the whole restaurant. Interestingly, their preferences within the orbit of luxury goods are not much different from the financial elite in the West. The most popular brands of the Chinese nouveaux and jeunesse riche are Louis Vuitton, BMW, Cartier, Patek Philippe and Hennessy. Any reservations towards Western brands? Obviously not.

As far as government officials and gift giving are concerned, the craze about luxury goods has been substantially dampened since China's new president Xi Jinping took office in March 2013. His anti-corruption measures are taking effect and nowadays government officials are even concerned about walking on red carpets or in to opulent banquets. Photos posted on social media channels showing officials with expensive clothing, watches or cars have exposed them to public criticism and now keeping a low profile is the new motto. Latest plans of the central government in 2015 to eventually link taxation of property to the individual owner corresponding to the number of flats owned is sending shock waves through China. Those who have made their fortune by abusing their authority are likely to suffer from disturbed sleep patterns.

Wealth is not evenly distributed in China. Credit Suisse published a report titled "Analyzing Chinese Grey Income." The report revealed hidden income of RMB 15 trillion, equivalent to roughly 30 % of GDP in 2011. The estimated personal income in 2011 was found to be significantly higher than the income reported in the household survey by the National Bureau of Statistics, and the gap is much wider among the high income group. Based on the estimates of the survey, the per capita disposable income of urban residents was RMB 43,663—twice that of the official data of RMB 21,810, while for the top 10 % income households, per capita income was RMB 188,448—just about 3.2 times the official survey data of RMB 58,842. The study was done by Professor Wang Xiaolu of the China Reform Foundation (Credit Suisse 2013).

There are enormous regional divergences and with ongoing urbanization, greater mobility and education, and rising wages in its industry and service sectors, the differences in income and lifestyle across the country will become much more pronounced and diverse. For international brands catering to Chinese consumers, this gap will determine the difference between success or failure, as they must be able to fully grasp the impact of these evolving changes. While income grows, expenditure patterns will shift, different consumer segments will develop and new consumption trends will be shaped. According to different studies, the disposable income of urban consumers will double during the current decade to about $8000. By 2020, China will get close to South Korea's current standard of living but it will still be a long way from catching up to developed countries such as the U.S., which averages around $35,000.

Market researchers commonly distinguish four major consumer brackets in urban China based on disposable income as can be seen in Fig. 4.4. On top of the pyramid are the "affluent" with more than $34,000 in annual income. The "mainstream" is the next income level, with $16,000 to $34,000, followed by "value consumers" with approximately $6000 to $15,999, and on the bottom of the pyramid are the "poor", who earn less than $6000 annually.

In 2010, equalling approximately 80 %, value consumers represented the vast majority of urban households with their income equalling just enough to cover basic needs. The better-off mainstream consumers were still a rather small group by comparison, comprising 6 % of the 226 million urban households in the People's Republic. The affluent were making up just around 2 % of the urban population. Nevertheless, at 4.26 million households, their number is equivalent to the population of Singapore, the city of Los Angeles, or slightly more than three times the population of Munich. However, the proportions are changing rapidly and by 2020 we can expect that there will be substantially more mainstream consumers (~50 %) than "value consumers" (~36 %) (Atsmon et al. 2012).

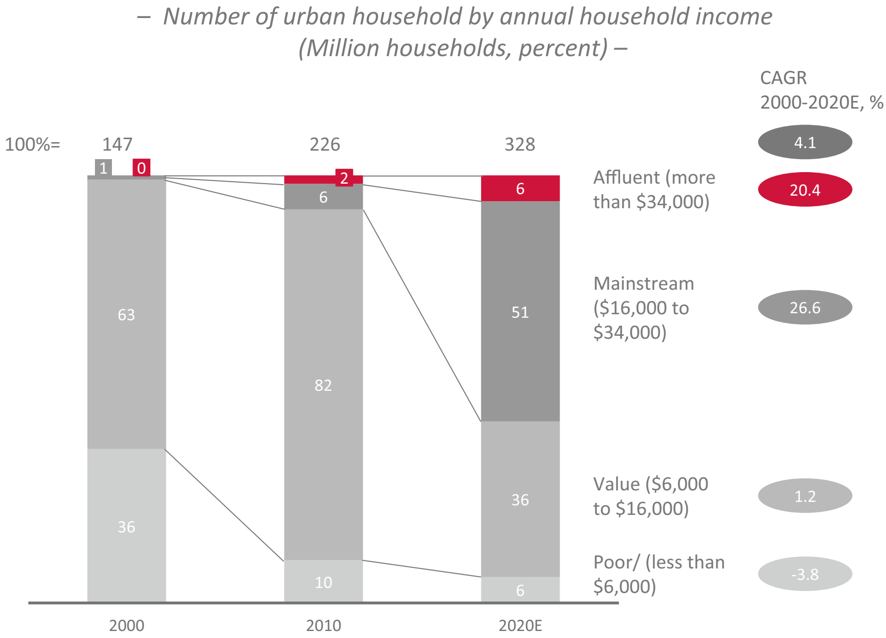


Fig. 4.4 Chinese urban households share of annual household income in different classes in 2000, 2010 and 2020. *Source:* Atsmon et al. (2012)

Until now, these divergences have presented multinational companies operating in China with a rather simple choice: "To target only mainstream and affluent consumers or to stretch the brand to serve the value segment. Those that took the first course could more or less maintain the same business model they applied in other parts of the world, without needing to de-engineer their products." The result; foreign brands taking that approach limiting themselves to a target market of only 18 million households, while companies choosing to serve the value category benefitted from a much larger market of 184 million households. The included trade-off, their products had to be cheaper, they had to adapt their business models, and were forced to accept lower profitability.

However, now the whole equation is changing fundamentally, and fast. A massive share of the value consumer category will switch to the higher mainstream segment because of rising wages. The share of the relatively better off mainstream consumers in the urban income pyramid will grow from 6 % to 51 % during the current decade. This represents an additional 154 million households, close to 400 million people, or roughly five times the population of Germany. This group, according to the report, "will become the standard setters for consumption, capable of affording family cars and small luxury items." For international brands, this means the chance to introduce better, higher-value products to a vast group of new consumers. In terms of marketing, this includes the chance for a more pronounced differentiation from the competitors, and margins may grow as a consequence.

Value consumers, although they will lose their majority within the income pyramid, will still represent 36 % of the urban households by 2020 equalling 116 million households, or 307 million consumers. This is an enormous market for cheaper products.

With their rising share of the urban population, mainstream consumers will be spread out much wider across the country. Today, around 85 % of them live in the 100 wealthiest cities of China. The next 300 wealthiest cities in the country currently only harbor another 10 % of the mainstream consumers. However, this share will triple to a staggering 30 % by 2020. As a result, flat-screen TVs, overseas travel, and fashionable apparel will become affordable to millions more Chinese in the vast hinterland. For consumer brands, this means very high growth in discretionary product categories. Millions of consumers will trade up to buy pricier versions of products or services they already enjoy. Discretionary categories will experience the strongest overall annual growth of around 13 % by 2020. While in 2010, average household spending for value, mainstream and affluent consumers was about $2000, $4000 and $12,000, these numbers will rise to $3000, $6000 and $21,000 by 2020, respectively (Atsmon et al. 2012).

Based on these changes, there are far-reaching implications for international brands and their positioning strategies in China. Many brands will need to be re-positioned in a more “market-driven” way to suit the rising aspirations of China’s mainstream consumers. Newer and younger brands, meanwhile, might be able to leapfrog more established competitors with premium products and enhanced brand images (globeone 2013b).

4.6 Not to Be Missed: China’s Emerging Middle Class

The rise of China’s middle class is possibly the most sizeable national-economic phenomenon on this planet. Once its consumption level reaches the global average, it will represent more than 20 % of the world’s total thanks to its population of over 1.3 billion people, but whoever wants to measure the real magnitude of this development will inevitably run in to trouble as there is no widely accepted definition of the term middle class. Back in 2009, the Chinese Academy of Social Sciences estimated the country’s urban middle class at 230 million, or 37 % of the total population. Based on historical patterns, the academy predicted the middle class will comprise 40 % of the total population by 2020.

The lack of a generally accepted definition of what constitutes China’s middle class sometimes leads China observers to deploy unconventional metrics. In July of 2012, the Carnegie Endowment established its very own measurement to gauge the phenomenon. The researchers suggested using the number of passenger vehicles in circulation (Carnegie Endowment 2012). The reasoning behind this unusual but plausible step was; “Whereas in advanced countries even households classified as poor own cars, in developing countries, car ownership is almost synonymous with at least middle class status,” because it separates those with the ability to purchase non-essentials from the wider population. By that measure, China’s middle class has indeed come a long way already. From 24 cars per 1000 inhabitants in 2007, China's motorization climbed to 27 per 1000 in 2010. It is expected to reach 33 by 2020, but car density varies considerably within the country. While Beijing reached two-thirds of Berlin's car density in 2010 (217 vs. 328), it amounted to only 21, one-tenth of Beijing's, in Jiangxi.

Nevertheless, no matter how you measure it, China's middle class is already an integral part of the political contract of the People's Republic. "The Communist Party has effectively linked the continued success of China's middle class to the current economic model," explains George Washington University Professor, Bruce Dickson. According to Dickson, the party has convinced most of the country's upwardly mobile population that its continued prosperity is inextricably linked to sustained stability. In other words, if the Chinese people don't challenge the ruling political system, the party will open ever more venues for sustained growth and more prosperity (China Business Review 2009).

A different set of numbers from the State Council Development Research Center were also published in the China Business Review. According to this forecast, China's middle class consumers will rise by 162 % from 2006, reaching 340 million in 2016, and by another 47 % to 500 million in 2026. The middle class' current share of China's total urban disposable income—27 %—is expected to rise to more than 40 % halfway through this decade and to 55 % by 2026. This has already given China's middle class a considerable global footprint. In 2010, Chinese consumers purchased 19 % of all PCs sold worldwide, 18 % of all LCD TVs, 14 % of all mobile phones, and 26 % of all automobiles (by unit volume). The rapid rise of the middle class is reflected in China's import statistics as well. The country is now the world's second largest importer and will become the biggest in a few years, according to remarks by Commerce Minister Chen Deming in 2012 (Xinhua 2012). Its growing purchasing potential is documented by the growth rates in retail sales. They have stayed between 13 % and 16 % over recent years, almost twice as high as the country's GDP growth rate.

Two important developments are of great interest to international companies who want to cater to China's consumers. First, disposable income of urban citizens is growing faster than the official Consumer Price Index (CPI). While China's GDP growth fell below 8 % per year in the first half of 2012, disposable income in all 28 provinces that reported their statistics grew by at least 10 %. During the same period, the CPI increase was reported with less than 5 % in every single province. Second, income is now rising faster in interior provinces than in the early growth centers along the coast. In the first half of 2012, a total of 17 regions saw higher per capita income growth rates than the nationwide average of 13.3 % and Northwestern Ningxia Hui's autonomous region registered the highest growth rate at 14.4 %.

China's emerging middle class is not only experiencing healthy income growth. In its BRIC Branding Survey, globeone also analyzed the consumer confidence and optimism across the BRIC nations. Here, it becomes clear that the Chinese growth path actually is a very favorable development in the eyes of the Chinese people. An astonishing 86 % of urban citizens across five major Chinese cities said that they are now much better off than in the past years and that the current change is positively impacting their lives (globeone 2011).

A transient analysis of China's statistics will reveal that the consumption as a percentage of GDP declined after 2001. By the end of the decade in 2010, it amounted to just 34 %, roughly 19 points below Japan's lowest post-war ratio. In the U.S., consumption did not even fall significantly below 50 % of GDP during the Second World War. However, these numbers are misleading, for a simple reason, as Nicholas Lardy of the Peterson Institute for International Economics argued in his book "Sustaining China's Economic Growth"; Consumption in China has been growing faster than in any other large country and the real growth was just hidden by China's GDP, which has been growing even faster. Since people have a tendency to smooth their consumption, spending lags income most of the time, both on the way up and on the way down. This is why, according to the Economist (2012) "consumption habits have yet to catch up." The conclusion from this observation is key to marketing in China: "Just as consumption failed to grow as quickly as income over the past decade, it will fail to slow as quickly over the decade to come."

The financial crisis and its aftermath, The Great Recession, had a strong impact on consumers in the West. They also left their marks on Chinese consumers. Families with lower incomes (the lower middle class, or value consumers), as well as consumers in export oriented regions, have been among the most affected. Whereas, higher income brackets—the upper middle class (mainstream) and the affluent—were less affected. In general, there has been a sustained growth in consumption, consumer sophistication and brand orientation as well as a slight slowdown in trading up (74 % of consumers reportedly traded up in 2010). However, the longer-term trends seem not to be shaken. The main reason is the shift in the segmentation we have described in the preceding paragraphs. China is about to ignite its second wave, where value consumers (lower middle class) have reached their peak of buying power and are shifting *en masse* up the income ladder to the next bracket, the upper middle class (mainstream). This second transition is a strong structural force supporting China's consumption growth, even during the current period of decelerated growth of below 8 %.

This trend is supported by government policies that try to spur consumption, mainly by closing the massive income gap between coastal boom towns and rural areas where the income gap has become dangerous in some areas. On the local level, there seems to be several experiments that are aimed at reducing these gaps. Chongqing is running one of these pilot projects where the city helps farmers moving to cities, allowing them access to education, healthcare and pensions. Those who participate can choose to keep their land or give it up in the process. Another pilot program is conducted in Chengdu where authorities there are trying to bring jobs and development to the countryside, and with them privileges of urban residents. This initiative helped to cover most of Chengdu's rural residents with medical insurance. Nevertheless, regardless of these initiatives, the income gap is wide and is getting even wider which is a potential trigger for social unrest.

If you want to gauge the breadth and magnitude of this emerging middle class, go and talk to some China managers at IKEA. The Swedish furniture maker entered China in 1998, when it opened its first store in Shanghai. When it redesigned the outlet in 2003, the company had to add another story and 300 % more retail space. On its opening day, the new store attracted roughly 80,000 visitors, who wanted to see the 7000 products and its 170 m^2 children's playground, plus the 500 seat restaurant. European design, functionality and low prices lured Chinese consumers. However, it soon turned out that prices were too high for the target group, families with children, or young, professional couples with double income and no children. IKEA had to rewrite the price tags on selected items in order to offer something to the less affluent. However, it still maintains premium prices for many items or charges even more than in other markets for selected items.

Since then the company has seen rapid growth in the People's Republic. In February 2012, it opened its tenth Chinese store in Tianjin, in June, the 11th outlet followed in Wuxi. IKEA's expansion plan calls for three new stores per year until 2016. The current flagship store in Beijing received over six million visitors in 2011—more than the number of tourists that were greeted in India in the same year—making it the largest volume store for IKEA globally. The Shanghai outlet is not far behind. On a Saturday, it reportedly counts 28,000 visitors, equal to the number of weekly visitors in an IKEA store of similar size in Europe.

While the furniture maker is strengthening its presence in Tier 1 cities, it is accelerating its expansion into Tier 2 cities, mostly provincial capitals and the prefecture cities surrounding them, which are evolving into the main regional driver of growth going forward. Among them are Chongqing and Wuhan, which fall into the category of the eight mega-cities that the central government is planning for, with populations in excess of 10 million. In March 2012, Gillian Drakeford, IKEA China's boss, gave an idea of the company's Chinese core customer in an interview with the Wall Street Journal; They "are people between 25 and 35 who have relatively higher incomes than the average and a higher education than the average. They are often more open to a Westernized lifestyle, and in most instances, these are also the persons who buy homes." This means that IKEA's sales in China might temporarily slow down because of the government's attempts to cool down the real estate market to a more sustainable path. "Living space," explained Drakeford "is tighter on average in China than in the West. An average family will live on between 70 and 90 m^2, mostly in a high-rise block, and often there will be multigenerational family members living together. So people have more and more stuff at home to store. This is where we are experts."

Brand strategists and marketing manager find it increasingly hard to keep pace with the quickly shifting attitudes of Chinese consumers. Managers and researcher familiar with the developments characterize Chinese consumers as an elusive target with rapidly evolving behavior with tens of millions joining the market every year. Much of this massive 2nd wave of growth is coming from Tier 2 and Tier 3 cities that offer their very own challenges and risks.

4.7 Overall Segmentation of the Chinese Market

Betting on the right segments in China's complex market place is one of the most crucial decisions that foreign corporations who wish to score in the country have to take. Overall, the basic principles of segmentation work in China as they work anywhere else in the world. That is, grouping people together that share certain socio-demographic characteristics or—even more meaningful—that share specific psychological attitudes, value orientations, needs and demands. Once these segments are identified, it is possible to develop a clear description of the major potential target groups, to understand the differences and to develop an adequate product, brand positioning and communication strategy that suits the needs and expectations of these groups. All of this happens with the goal to increase the likelihood that the product and its positioning will meet a relevant need and a significant number of people that will finally buy the product.

If the segmentation approach is set-up correctly and a large enough number (usually more than 1000) of respondents from the target population have been interviewed, it is also very interesting to look at who actually owns or uses local and global competitor products in the different segments. In many cases, there are large differences in the ownership of different brands across segments. Therefore, these insights allow a development of understanding as to which segments there is not only demand but also more or less competition and where it is most easy to win over customers for your own brand.

It is also important to understand the absolute and relative growth outlook of a certain segment. Normally, it is good to bet on those segments that are likely to grow even further. Let's take convenience food for example. While there are many people in China who cook every day for themselves and family, this is a traditional behavior. Nowadays more and more people live in busy urban areas, are working long hours and spend much time commuting. They simply do not have the time to cook every day at home. While segments that feature traditional behavior are likely to shrink, groups that feature more recent convenience-behaviors are likely to grow.

As outlined before, regional considerations are always a headache in almost every market research that is conducted in China. China features more than 170 cities with more than one million inhabitants. So which do you select? There is no easy answer to this question as it is usually practically impossible to paint a truly representative picture of China. The selection of regions, city-tiers and actual cities for a segmentation exercise should be based on the actual growth strategy a company is pursuing. In a market entry research exercise, clients usually decide to focus in the top three cities of Beijing, Shanghai and Guangzhou first and might include a few more major cities in other regions like Tianjin, Wuhan or Chengdu. Other companies that try to identify the new sources of growth beyond the Tier 1 metropoles might select a larger number of Tier 2 and Tier 3 cities across the country and are likely to identify a very different market structure.

As mentioned above, there are many variables that can go into a segmentation exercise in China. Besides hard variables like socio-economic factors (e.g., income, ownership of big ticket items like cars or flats), education, job related aspects and social status play an important role. Beyond this, there are many dimensions related to the value orientation of an individual that matter, sometimes referred to as the CHINAVALS. This is a set of values that proved to do a good job in overall segmentation exercises as these values allowed to separate relatively meaningful groups of people. Some examples for the value aspects are as follows:

– Patriotism
– Relationship-drivenness (Guanxi-drivenness)
– Need to show power & status
– Family orientation
– Entrepreneurial spirit
– Focus on monetary success
– General optimism
– Appreciation of Western lifestyles
– Focus on the expression of the individual self
– Education focus
– Openness to other cultures
– Appreciation of foreign lifestyles

These and many other product and product-usage related aspects have proved meaningful in making sense of the Chinese market. In any case, segmentation in China is more difficult than in stable markets where segments hardly change. China is a moving target and the tremendous income and regional shifts as well as foreign trends and rising levels of individualism can lead to situations where the overall picture changes dramatically within 1 or 2 years.

Once all of these factors have been taken into consideration, a reasonable research design has been defined and respondents have been interviewed, this procedure leads to a meaningful segmentation that can then serve as a basis for strategic decisions. These can be decisions regarding whether or not to enter a market or segment at all, how to enter the market (e.g., what specific products to launch), how to best position in the segment (e.g., what core brand values and key benefit statement to use) and how to best reach the target groups on terms of media strategy.

But what does a basic segmentation of middle and higher income and affluent Chinese look like? What are the key segments and what characterizes them? Figure 4.5 illustrates a segmentation that gives the basic idea about the structure of the upper urban Chinese market.

Possibly the largest of the segments—and partly overlapping with most of the others—is the *modern business elite*. They are mostly free entrepreneurs, focusing strongly on their business and money. Many of them are prestigious business leaders and their income level is high or very high. They have spent a long time, often many years, to accumulate their wealth. In terms of value orientation, they are neither very patriotic and loyal to the party nor very oriented towards Western values. However, they are very optimistic and have the feeling that they are shaping the development of the new China. Therefore, they also like to show their power,

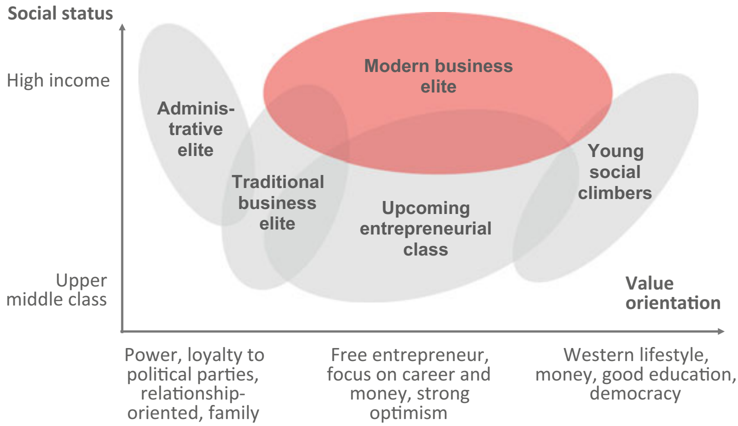


Fig. 4.5 Illustrative segmentation of "affluent" and "mass affluent" consumers in China. *Source:* globeone research (2013)

status and dominance which is, for example, also expressed in their choice of car brand. They are more likely to drive a flashy sports car brand than a traditional and boring business limousine and they are not afraid of showing off in order to display their newly gained social status.

Below the modern business elites, there is a class that could be described as an *upcoming entrepreneurial class*. The main difference between this segment and the modern business elite is not their value orientation, but current social status. They have not made it yet to the very top and therefore are still striving to communicate their social status. Overall, they are very passionate and self-motivated professionals. Some in this group have accumulated their fortune in more recent times, during the period of economic reforms in the 1990s and 2000s. Their wealth was made in a rather short period of time, and many were born in working environments and lower classes, which makes them prone to showing off. These nouveau riche are often well educated and they are mostly younger than the humbled tycoons or successful entrepreneurs of the modern business elite. Members in this sub-segment are very willing to spend alot on luxuries because they want to differentiate from others. Buying prestigious goods is a way for them to get rid of poor images and they desperately want others to realize their existence.

At the more traditional side of things are the *administrative elites* and *traditional business elites*. Overall, both of these segments are very patriotic in their value orientation. They are very proud of China and show high levels of loyalty to the ruling party. In the administrative elite, there are many people in high-ranking party-related, administrative or military positions as well as their family members. This close link makes them more suspicions of foreign trends, high individualism and democratic orientations. If they buy a car, they would usually try to stand out a little less and select a "lower profile" to avoid other people wondering where their individual wealth is coming from.

Traditional business elites were formerly one of the key segments for foreign luxury car makers. Some of the foreign brands therefore tried in the past to enrich brand communication with traditional Chinese elements and cultural symbols to appeal to the taste of these groups. However, due to the rapid development of modern business elites, this segment is losing its relative importance. While being a bit less patriotic and relationship-focused than the administrative elites, the traditional business elites also highly value family ties, are very proud of Chinese tradition, invest much time in maintaining their relationships and do not follow every foreign trend. However, as far as cars are concerned, this does not mean that these people neglect foreign luxury car brands. It rather means that they are much more likely to go for a safe choice like an Audi A6 or E-Class Mercedes rather than a flashy BMW or Porsche 911.

Besides these major segments, there is very fast development in a segment that could be termed *young social climbers*. These are very open and more Western-oriented youngsters who are also making good money and have enjoyed a high standard of education—sometimes even abroad. They are mostly individualists, very open to adopting new lifestyles and trends and favor unique product designs. While many of them are very energetic and successful in their jobs as art directors, consultants or internet entrepreneurs, many are still striving to climb the social ladder.

Overall, it is interesting to see that until today, Chinese society is still very much split in half in terms of people who are very traditionalist in orientation versus people who are, while still being very proud to be Chinese, more Western-oriented and open to new concepts. As there are constantly young and successful people joining the upper and high income levels, this picture is changing constantly. Finally, it is also important to be aware that the segmentation described above is just one of the many ways to look at the upper urban market. While such a birds-eye perspective is valuable, there is a need for much deeper analysis of consumer behavior-related aspects, attitudes and feelings towards specific products and brands. Only then will this fragmented mosaic becomes a picture that one can confidently base sound business decisions on.

4.8 Major Influence Factors on Consumer Behavior in China

In order to conquer the new frontiers in China's huge and growing consumer universe, brand managers need to navigate through some delicate—and often not very well-known—cultural currents. Knowledge of the underlying codes and traditional values of the Chinese society is valuable and decisive, as is familiarity with Chinese history, Confucianism, collectivism, national pride, traditional Chinese medicine, the recent trend towards individualization and growing foreign influences. These factors are shaping—and constantly changing—consumer behavior. Scientific observations and much anecdotal "evidence" through news reports in the mainstream media are available, but a comprehensive picture that combines traditional culture and the more recent trends seems to be lacking.

We already know that Chinese people put emphasis on the collective, while individualism reigns supreme in most Western countries. Returning expats tell us that the Chinese are quite receptive to international business practices, while they are hardly compromising on their strong nationalistic views. Ancient beliefs and religions like Confucianism, Buddhism and Taoism are firmly rooted and always present, even when new members of the local middle class are pushing their shopping carts through the hallways of large, sparkling superstores.

It is also evident that Chinese consumers are getting more prepared and increasingly sophisticated, when they enter a store. Consumers in the more sophisticated segments often bring along shortlists of favorite brands and more often than not, they stay with a product that was in their initial selection. In the lower segments, there still is a lot of experimenting and brand switching, and such consumers can also be very quick to adopt to once-unfamiliar product categories. Fabric softeners, microwaves, and pure fruit juice were once rather unfamiliar to them, but penetration rates of such softeners and juices have now reached 40 %–60 %. While brand awareness is rising quickly, brand loyalty is not catching up fast. In general, it seems that Chinese consumers still enjoy experimenting with different brands or to even stay open to the use of different competing brands in the long run. Figure 4.6 highlights the low level of brand loyalty using the example of Coke versus Pepsi as well as McDonald's versus KFC.

Roughly 15 years after the first foreign brands were introduced in larger quantities to Chinese consumers, many local brands are still losing out to Western labels. Even well-known Chinese brands like Li Ning and Anta Sports are still finding out that they can lose touch with their "own" local consumers if they don't conduct sufficient research, create the necessary excitement and invest systematically in advertising and brand development. Many local brands saw a huge surge in sales after the 2008 Olympics, only to find out afterwards that many in the growing middle class switch to foreign products once they can afford pricier and trendier

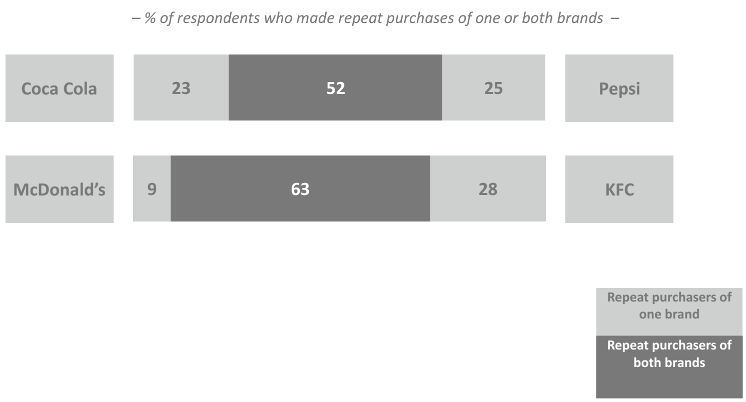


Fig. 4.6 The brand loyalty challenge. *Source:* McKinsey Insights China—Annual Chinese Consumer Studies (2009/2011)

brands. Western sports brands like Nike and Adidas that began selling in China in the 1980s are still building on their market share in China's sports apparel and shoe markets.

Nevertheless, in many industries that are closer to local culture, domestic brands in China sometimes display a superior intuitive comprehension of local tastes. It seems that many Chinese companies have the ability to better align their products to local consumption trends and tastes than international competitors. Multinational companies, meanwhile, tend to minimize their product adjustments to local tastes and requirements. They would rather persist with the global positioning of their existing brands. While there might be cases for luxury products to proceed like that, a high grade of standardization in China is often equivalent to giving up market share. China is a unique market, it is way too large to be approached like a single market place. Any successful marketing strategy will have to incorporate the growing diversity of local market conditions and requirements as well as different trends and consumer behaviors.

In China, cultural values have a very high relevance. The Chinese are proud of their long history and there is a wide range of traditional Chinese values and external influences that are shaping consumer behavior. The focus of the following section will be on the urban middle classes. Compared to the rest of the Chinese population because they are more exposed to influences that are created by the country's rapid transition, foreign influences included.

4.8.1 Collectivism and Traditional Orientation

China is deeply rooted in the philosophical system of Confucianism. The result is a distinct sense of collectivism. The goal of Confucianism is a well-ordered society. Hierarchical relations within the family, as well as between family and state, are tightly regulated. In most cases, persons are acting as a member of a group, not as an individual. The sense of social responsibility—especially within the family or within the own circle of friends—is very pronounced. One example can illustrate this: Try to market a two seat-car in China and you will find that most Chinese would never even consider such a car. The main reason for this is that children would not dare to present such a car to their parents (unless they also own a second car with four or more seats). Chinese parents would regard this as very impolite if the kids purchase a car with two seats, as this would imply that they are not welcome in the car.

If you translate a collectivist orientation into the realm of consumers, it implies a particular set of behaviors. Many Chinese consumers do not want to be among the first to try a new product, but at the same time it creates discomfort with them for being somehow behind the times if others go first. If their neighbors or peers have tried it, it might be a good idea to follow suit. For brand marketers, such a strong collective orientation implies that informal channels of communication are very important. Among the members of a given group, there is a very high rate of contacts and information. This means that Chinese consumers base a good part of their decisions on word-of-mouth or comparable peer-based communication. This is what makes social platforms like Sina Weibo or Tencent's mobile social network WeChat particularly popular in China, compared to most other places. Any communication on a relevant product will circulate with high speed across such informal channels.

However, Confucianism is only one of several factors influencing behavior in China, and depending on age, income, industry or situation, it can vary quite a lot. Especially among young target groups, observers are detecting growing deviations from established cultural norms. It can sometimes even be perceived to be posh, if one calls into question or challenges old norms and values. With massive migration, rising mobility and growing income gaps, as well as with the growing affordability of residential property for many younger Chinese, the influence of Confucianism on modern China is declining. Some examples of this trend are; rising divorce rates among Chinese couples, the one-child family and an accelerating trend towards opting for fast food instead of cooking at home. On the contrary, some key Confucian values like the importance of loyalty to parents, networking (guanxi), and the motivation to learn and to excel have an undiminished meaning.

In the context of the financial crisis of 2009 and its aftermath—slow growth in Europe and in North America, as well as weak labor markets and a diminished trust in institutions—Chinese collectivism has drawn additional attention and even prominence. Practically speaking, China is a combination of a strictly authoritarian political regime and an increasingly capitalist economy. Its fast road to modernity and its sustained growth rates since the start of reforms have raised the question of whether there is something like a Chinese model. China has even started to provide a certain inspiration as a possible blueprint to a number of other countries, particularly in Asia and Africa. Slightly more than two decades after the American political scientist Francis Fukuyama proclaimed "The End of History," asserting that there are no longer any rivals to democratic capitalistic societies, we are seeing a new sort of regime debate evolving.

It is intensified not only by prolonged economic problems in the West, but also by the fact that for over two decades, Western experts have forecasted the collapse of China, and nothing like it has happened. China's growth was hardly dented during the Asian financial crisis in 1997. SARS or Bird Flu did not bring disaster either, and during the global economic crisis, China was not destabilized. On the contrary, with a massive stimulus package it turned out to be one of the few remaining growth engines during the recovery after 2009.

China appears to be an authoritarian state with well educated elites that are leading the country more collectively than in Maoist times when the official leader reigned supreme. In economic terms, the country seems to be excellently advised and counseled. The political system is based more on selection than election and the leadership seems to learn from the West as well as from its own traditions. While misgivings and doubts about the effectiveness and sustainability of the economic system are growing in the West, there is an astonishing number of Chinese intellectuals and Western economic thinkers who don't see a new regime competition arising. Wei-Wei Zhang, a senior research fellow at the Centre for Asian

Studies in Geneva, and a Professor of International Relations at Shanghai's Fudan University, sees China as one of the least ideological countries in the world, "prepared to test what works in a pragmatic way". Wang Shaoguang, Professor of Political Science at the Chinese University of Hong Kong, claims that China is still searching for a model, "one that would certainly be socialist."

In an analysis on "Authoritarian Capitalism Versus Democracy," Ivan Krastev at the Stanford University's Hoover Institution claimed that in the decades to come, the nature of political regimes will be a rather unreliable predictor for the geopolitical alliances to emerge; "It is the blurring borders between democracies and authoritarian capitalism, rather than the triumph of democracy or the resurgence of authoritarianism that defines the global political landscape". It still seems that there are strong concerns, mostly among Western business leaders who prefer a stable and predictable environment, that we might be facing a kind of new global rivalry between the prevailing economic models—market capitalism as cherished by Wall Street and state capitalism as showcased by China.

In early 2012 when he was speaking at the World Economic Forum in Davos, David Rubenstein, the co-founder and public face of the Carlyle Group, a private equity firm, expressed the view that the Chinese model of state capitalism is now pulling ahead of the U.S. market model (Foreign Policy 2012). "I think this view is dead wrong," retorts Harvard historian Niall Ferguson (China Quarterly 2005). Ferguson finds it interesting to see why some influential people subscribe to this assessment. He concedes that "market capitalism has certainly had a rough 5 years" but he deems it an unhelpful "oversimplification" to divide the world into state and market varieties of capitalism. A closer look at China seems to confirm this view. While the state controls the bulk of the resources, the budget—as a proportion of the size of the economy—is only two thirds that of other middle income countries and only half that of the European Union. "The reality," argues Ferguson, "is that most countries are arranged along a spectrum where both the intent and the extent of state intervention in the economy vary." In other words, according to Ferguson, "the question today is not whether the state or the market should be in charge, the real question is which countries' laws and institutions are best."

4.8.2 Status Relevance and Social Prestige

Status and prestige are of extremely high importance in Chinese society. In a sense, Confucianism and collectivism are a major source for these priorities. Since group opinion has a high relevance, the wish to project personal success to the outside world is very pronounced. This aspect is much more important than in other more individualistic societies. Status and the willingness to pay a premium for representational goods are a logical result. During a phase of fast—and sometimes furious—transition, many successful and affluent Chinese want to put it on display that they have "made it" and can now afford luxurious brands. From premium cars, handbags, fine watches and fancy smartphones to luxury flats with exquisite home décor, luxurious kitchen appliances and expensive whiskey visits to trendy

Fig. 4.7 Positioning based on status and social prestige: This driver uses the racing flag as a cuff-link to clearly signal his pride of driving a sporty Cadillac. The sporty acceleration of the car is linked with the dynamic social progress of the driver. *Source:* Cadillac China (2010)

karaoke clubs, there are almost no limits to the wish to impress peers and business partners. Marketers and advertising strategists have quickly realized this aspect as can be seen in Fig. 4.7. Many more examples of how status relevance and other socio-cultural specifics are successfully used in marketing communication can be found in the strategy chapter.

In Western societies, motives for luxury consumption have been studied for decades. One of the first to conduct such research was the American economist and sociologist Thorstein Veblen. He was a leading intellectual of the Progressive Era and a main figure in the institutional economics movement. In the late nineteenth century Veblen developed “The Theory of The Leisure Class.” He combined economics and sociology and made a basic distinction between a productive industry that was run by engineers manufacturing goods, and a parasitic business segment that existed only to make profits from a leisure class. Their main activity was conspicuous consumption, the spending of money to acquire luxury goods that are used to publicly display economic power. The object of Veblen’s studies were the lavish expenditure of the newly-rich in the United States. Veblen was convinced that people tend to obtain social prestige through luxurious possessions, which they showcase as a sign of wealth. In recent decades researchers have started to focus more on psychological motives of such consumption and have focused—among others—on hedonic motives in purchases of luxury. Some distinguish between social-directed and personal-directed motivations. Conformity, in this context, can be a strong motive of social-directed purchasing behavior. Some consumers are buying luxury goods in order to exert interpersonal influence, so they can be accepted by a particular social group (Mason 1993). According to Mason, status pursuit is the most important motive in conspicuous consumption.

Li Boyi in his Master Thesis for the Politecnico Di Milano found, that “status and self-reward are two particularly strong motivations in China.” Among the people Li surveyed for his thesis, more than 70 % saw luxury brands as a way to demonstrate their status and success. Interestingly, less than 30 % of the Chinese polled for his survey objected to paying a premium for a luxury brand, and over 60 % of respondents claimed they bought luxury goods as a way to reward themselves for their hard work and success. Besides status and self-reward there is also another aspect of status consumption. A key motive behind the purchase of many prestigious items is a motif that market researchers refer to as “cosmopolitan sophistication.” That is, showing connoisseurship of exquisite things in an attempt to distinguish oneself and compensate the feeling of being backward or behind in development. After decades of suffering from economic backwardness before economic reforms finally kicked in, many people still feel the need to catch up with their counterparts in the Western world and to show that they are at least as sophisticated as people in the developed world.

Even more interesting for those brands that are about to make their way into China’s second-tier cities. Wang Jing, Professor of Chinese Cultural Studies at the Massachusetts Institute of Technology, concluded in the September issue of the China Quarterly in 2005 that if Veblen lived in urban China today, he couldn’t “find a larger population than the Chinese who are so eager to practice his theory of pecuniary emulation.” According to professor Wang, it is in second-tier cities like Dalian, Shenyang and Chengdu where near-term investments of foreign brands will be paid off well, because “second-tier status as a city translates into first-tier desires by the residents.” No better proof of Veblen’s theory, therefore, can be found than in lower-tier Chinese cities, where consumers want to emulate the lifestyles of those higher up on the regional pecking order. “You are what you consume,” comments Wang.

4.8.3 Family Values and the “Little Emperors”

Confucian and collectivist values strongly contribute to the fact that in Chinese society the utmost importance is attached to family and children. This determining factor is reflected in the habits of Chinese consumers. According to several studies, families with children in the five largest cities of China spend around half of their disposable income on their offspring. In China, the family has always been a stronghold against a volatile and unpredictable social environment, which throughout the centuries was all too often ridden by chaos. This is why in Chinese advertising the family plays an accentuated role. Around major festivities like the Chinese New Year and other national holidays, ads frequently show the consumption of goods like food and drinks within a family setting. Studies have shown that family scenes are prevalent in Chinese advertising. Most recently, this trend is all the more visible in the passenger vehicle category.

A set of favored motives for family-related advertising are traditional characters that highlight respect and admiration for the older generation. Some of them display the perfect family with grandparents, mom and dad, and the child. The obligation to fulfill the towering expectations of parents and ancestors rests with stifling weight on the young. The one-child policy has certainly aggravated this pressure, because all the aspirations and unfulfilled dreams of two generations—grandparents and parents alike—are projected onto one single child.

Advertisements that credibly demonstrate how the purchase of a particular product would delight the whole family are almost certain to make it much more desirable. The older generations are particularly present in Chinese advertising because in everyday life, they play a much bigger role than in Europe or the U.S. Even if they don't contribute to the family income any more, Chinese pensioners remain key decision makers for the purchase of many goods.

The offspring of one-child families have developed into a social "group" of their own. Some call them "The Royal Generation"; most call them "Little Emperors." The one-child policy was introduced in 1976 and is primarily an urban phenomenon as the one-child policy is not as rigorously enforced in the inner provinces. It has created a difficult and demanding world of no siblings for almost four decades now. Except for the obvious—and controversial—goal of limiting population growth, one of the less discerned goals was to yield generations of well-educated and driven achievers that help to fuel an era of unprecedented prosperity.

The little emperors are the undisputed center of attention in their families, and the weight of an entire family's expectations constantly weigh on their shoulders. There is also a compensation syndrome at work. Many older Chinese feel that they lost out on chances during the Cultural Revolution, so they put immense pressure on their children to achieve more. Especially education cannot be good enough. Roughly 40 % of the retail sales of traditional toys and games in China originates from pre-school toys. Some language and mathematics courses already start at the age of one. Little emperors are attending the best schools, they are sent to private English lessons, they learn to play instruments and they experience a wide range of extracurricular activities as a normal fare.

However, there are also lots of rewards. Extended nuclear families—consisting of four grandparents, two parents (and our little emperor)—are directing immense love, attention and resources on the single child. The traditional family has been warped beyond recognition. Much unlike in the past, where the power in a household derived from the father, the extended family is now structured entirely around the only child and the "4-2-1 phenomenon" has taken hold of society. The children grow up well-educated, well-protected and well-provided for in a sea of indulgence. From toys to clothes, they are showered with material goods, and many parents almost give in to every demand. The little ones often are in complete control of the purse strings. This is why, by international comparison, China has one of the youngest luxury consumer groups. Its members are using their parents' money to buy expensive merchandise because only the best of the best is good enough for the offspring. The result, little emperors are often spoiled and vulnerable at the same time and many of them tend to be over-concerned with their physical appearance.

The consequences of this social phenomenon are far-reaching. Within just one generation, the young emperors are slowly exchanging traditional Chinese values with their consumerist lifestyle. Thriftiness, once a paramount characteristic of whole generations, has given way to sumptuous consumption and the wish for instant gratification, and there are no siblings to share with. This phenomenon has created huge markets for everything from premium baby food to educational toys. Since the first generation of little emperors is now in their 30s, their self-indulgent lifestyle has carried forward from children's products to luxury goods and their highly improved education has played a key role in this process. Five years ago, 20–29 year olds became the highest-earning age group in China and for many of them, quality rather than price is now a decisive factor.

Young Chinese coming out of one-child families are cloaked in expensive brands of apparels, jewelry and cosmetics and as a result a whole new set of behavioral patterns has developed in the process. They are in part modeled after rich families, in other parts by rampant interaction with foreign countries and influences. Market observers are also noticing an accelerating trend towards individualism. This is also induced by the growing influence of Western brands and digital media. While this is not a general trend all over China yet, it is increasingly notable in first and second-tier cities.

4.8.4 National Pride and Consumer Patriotism

A good part of China's development is driven by pride and patriotism. Patriotism is an almost fundamental characteristic, a guiding principle and a collective energizer for the whole country. "Our commitment and determination is rooted in our historic and national pride," said China's State President Xi Jinping in 2013. National pride is deeply rooted in a civilization that led the world for centuries with its inventions and economic power. Until the second decade of the nineteenth century, China—together with India—contributed 40 % to the world's economic output. Throughout its long history, China reached several cultural peaks. Examples are the Han-Dynasty (206 B.C.–220 A.D.) and the Tang Dynasty (618–907 A.D.), which was characterized by great openness towards foreign influences. However, it was under the Song (960–1279 A.D.) that China finally reached an unrivalled prime in science and research. Major inventions like gun powder, the compass, paper and printing revolutionized the lives of millions and China was at the pinnacle of this progress.

Nowadays, the Communist Party is doing everything within its powers to foster pride and patriotism. From early childhood it is a key element in the educational system. Daily flag ceremonies in Chinese school yards before lessons commence, as well as mandatory military drills during the academic year, are common examples. It is because of its glorious past that many Chinese perceive themselves to be a superior culture, that is, after decades of technological backwardness and sacrifice, now aspiring to return to the small circle of leading nations. Catching up in economic, military and scientific terms to the U.S.—and especially to its unloved neighbor Japan—and finally getting ahead of them is something most Chinese feel they are historically obliged to. From outside the county, the most visible part of

China's quest for pride is its massive space program, especially the Shenzhou (divine craft) manned spacecraft and lunar missions. Former President Hu Jintao attended ceremonies for each of the country's manned space flights.

China's quest for pride has received some major boosts in recent history. Its economic rise and its space program are only two examples. Another is the Korean War where after massive human sacrifices were made, China managed to force the war to end in a stalemate—wresting a draw from the greatest military power on earth, the United States. Around one million Chinese died during the Korean War, among them Mao Zedong's own son. However, for the first time in more than a century, the agreement ending the war was not "unequal." Four decades later, on July 1, 1997, the People's Republic celebrated the end of British rule in Hong Kong and decades of colonial humiliation were finally over. In 2001, China joined the World Trade Organization and it was a major breakthrough for the country's opening up and reform policy. Finally 7 years later, China finally hosted the Olympics in 2008 in Beijing. After years of sanctions from the West, following the massacre on Tiananmen Square, the Beijing Games marked China's return to the Olympic family and its recognition as a modern country.

Foreign companies in China are constantly reminded that national pride and patriotism can create dangerous and sometimes devastating minefields. If a marketing campaign happens to cross one of the fine—and often invisible—lines of what is socially or politically accepted, it can immediately create a nationalist storm. Starbucks is among several prominent companies that found out the hard way how delicate it can be to communicate with Chinese audiences. After Starbucks opened a new store in the Forbidden City in September 2000, it drew heavy criticism from the media and the Chinese public. The presence of an iconic Western brand in a highly symbolic cultural and historical center was regarded by many as something close to an act of new colonialism. The fact that the museum management had invited the American coffee chain didn't calm the storm. After suffering a prolonged media backlash, and after petitioning from Chinese authorities, Starbuck wrapped up its operation in July 2007.

A similar storm was sparked when, in December 2004, Toyota started to run advertisements for a Land Cruiser and a Prado SUV. The caption showed two stone lions—the symbol of power in China—saluting and bowing to the Japanese cars. For many Chinese viewers, the video suggested Japanese superiority over China. The misuse of traditional symbols—as well as the allusion of Chinese inferiority towards Japan—drew widespread indignation. Another example: In June 2005, a McDonald's TV ad showed a Chinese man begging on his knees for a discount. With this analogy the fast food chain wanted to highlight its low prices. But the advertisement ran afoul of Chinese national pride and triggered a series of complaints. Chinese viewers perceived the begging scene as disturbing because getting down on one's knees is understood by many in China as an act of humiliation that re-awakens historic memories of the country's own collective humiliation when it was divided into spheres of influence by foreign powers and when Britain gained control of Hong Kong Island. McDonald's finally had to pull the ad and express "regret over any associations or misunderstandings."

But there are moderate ways to utilize Chinese patriotic feelings in marketing appeals. For example, in 2008, sports brand Adidas launched a campaign that also targeted to resonate with national feelings for China and the pride to be back on the global stage. The gold-award winning campaign by TBWA called "Together in 2008—Impossible is Nothing" displays Chinese athletes in many disciplines such as soccer, basketball or volleyball who are carried and even lifted up by thousands of Chinese supporters. The masses of people are cheerfully backing their national heroes. Thus, the credit for the success of Chinas Olympic athletes is directed back to the Chinese people in general.

But there are also ways for the business-to-business sector to use their involvement in building the iconic buildings related to the Olympics. Susan Krambo, Communications Director at world-leading technical insulation provider Armacell, signs responsible for campaign with special focus on growth markets like China. To enhance the relevance of the brand and its products for the target groups, Armacell works with case studies and references of successful projects in key growth markets to enhance its local relevance. For example, the company also equipped the Beijing National Olympic Stadium with advanced flexible insulation materials for the air conditioning system and used this high profile case successfully across many different information channels such as websites, brochures, fairs, newsletters and other customer communication tools. This makes a good approach how to position close to a local market without risking to be seen as a local player.

To the displeasure of irritated officials, some in China are even measuring how far the country has advanced towards restoring its former glory as the greatest economic and political power on earth. In August 2012, Yang Yiyong, the Director of the Macroeconomics Institute of China's National Development and Reform Commission (NDRC), presented figures on China's perceived achievements. Yang cited the "The Great Rejuvenation of the Chinese Nation Monitoring and Evaluation Index," which has now reached a score of 0.65. That means, the country has regained 65 % of its former glory by end of 2012. This represents a significant increase over 2007, when the rejuvenation index was at 0.46.

4.8.5 Favorable Perceptions of Foreign Brands

In April 2012, police in central China arrested a surgeon and four other people in a case where a teenager had sold a kidney to buy a new iPhone and iPad. According to state media, the 18-year-old Wang Shangkun had been recruited through an online chat room. He received USD $3000 for the transplant. Rarely is the power of foreign brands in China documented in such a brutal way. But there is almost daily news out of the country that highlights the ongoing buzz of Chinese shoppers for the latest Western gadgets and luxury goods. In July 2012, Hong Kong filmmaker Bill Kong, whose characters regularly vanquish their enemies with superhuman feats, complained that "high-class retail is killing the cinema business" (Bloomberg 2012). The background: In the early 1990s, landlords in Hong Kong malls had started to use movie theaters to attract visitors. Within only a few years the number of cinemas surged from zero to 77 in 1997, when Hong Kong returned to China. About 90 % of the cinemas were housed in shopping malls.

After the handover, a tsunami of Chinese visitors rolled into the city. The massive influx of shoppers from the mainland produced long lines snaking outside Prada, Gucci and Christian Dior stores. But most of them didn't want to admire Michelle Yeoh's and Jet Li's gravity-defying fights. They came here to buy Western luxury handbags and cosmetics. As a consequence, the cinemas started to give way to Louis Vuitton stores. The number of cinemas has now dropped to only 47, according to Hong Kong's Motion Picture Industry Association. The economics behind this astonishing and quick displacement is simple. A Louis Vuitton Monogram Empreinte Artsy MM bag sells for U.S. $2580 in the city. This means that "one LV bag is the equivalent of a full house of 150–200 cinema seats," says Bill Kong.

Campaign Asia-Pacific magazine together with audience measurement firm Nielsen published the 9th edition of their "Asia's Top 1000 Brands" report, which covers 14 major products and service categories in 12 key regional markets in Asia Pacific. The China Daily headline on the report said it all: "Chinese prefer foreign brands." According to the report, the five most recognized products in China are from overseas. Apple, Nestle, Chanel, Sony and Samsung came in on top of the list. Nine out of the ten leading brands were foreign. For the first time, Chanel managed to rank among the top ten. "It's meteoric rise to land within the top three in the China ranking is a stark reminder of the exponential growth in wealth and increase in disposable income on the Chinese mainland", commented the report's editor, Jolene Otremba. Our experience from consulting assignments in many very different industries from luxury cars to tires and from fashion to machinery speaks a similar language: There still is a significant strength of a foreign brand positioning in China (China Daily 2012).

International brands have an obvious advantage: They have accumulated decades of experience focusing their brands on a unique set of core values and thus building a sophisticated image. Chinese products, on the contrary, have to overcome their old credibility issue. Many people in China remember the quality problems which they experienced during the 1980s and 1990s with their domestic products. And some of these issues still prevail until today, especially when it's about food safety and nutrition.

That leads us to one of the key factors influencing the perception of customers when they build their opinion about the quality of a brand: Where it is made? There has been a lot of research in international marketing that has proven that country associations are actually leading to customer bias. And it has been clearly recognized that customers associate positive or negative attributes with a company, product or brand if they know it originates from a certain country (e.g. White and Cundiff 1978). This bias is based on the image of the country in the customer's mind. For many consumers in Asia, France is the best country for wines, Germany is the best in cars and engineering, Japan is best in electronics, and Switzerland is the best in watch making.

Country images are formed by a series of main factors. Economy is one of them. Most countries with a very positive country-of-origin (COO) image are highly industrialized. The extent of technological advancement in such a country bears heavily on consumers' perception as well. The level of consumption, the number of millionaires and the size of the luxury goods industry is yet another benchmark, as is the regulatory framework. If there is an effective regulatory mechanism with strict piracy enforcements and anti-fraud laws, it will help to create a sense of security in the eyes of potential customers. So in the end, the message that is conveyed about a product to the consumer is not only dependent on advertising, promotion, reputation and experience but also heavily influenced by the COO effect.

In March 2012, globeone published the first survey that explicitly dealt with the image of foreign brands—especially German brands—in China. The major objective of the study was to identify the specific COO image profiles of German, American, or Japanese brands versus local Chinese brands. More than 1000 interviews in five key cities in China—Beijing, Shanghai, Guangzhou, Wuhan and Chengdu—were conducted in order to get a representative picture. Figures 4.8 and 4.9 summarize the perceived strengths and weaknesses of brands from the respective countries versus Chinese brands. Very obvious is the relatively low appeal of Chinese brands in the eyes of local consumers. There is also a distinguished perception profile for most of the foreign countries in the survey. For example, while German brands score high in terms of classical dimensions like "quality" and "durability", Japanese brands have a strong "design" capability and American brands perform best in terms of "innovation and high-tech."

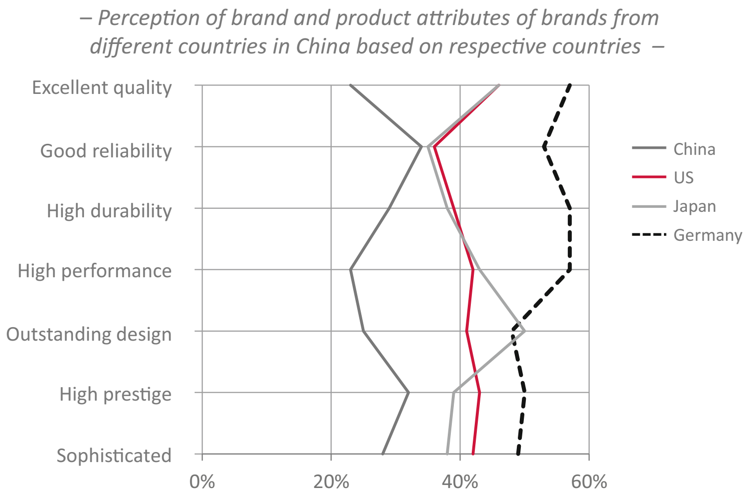


Fig. 4.8 Perception of the strengths and weaknesses of foreign brands versus Chinese brands in the eyes of urban Chinese consumers (1/2). *Source:* globeone BRIC Branding Survey—China Edition (2012)

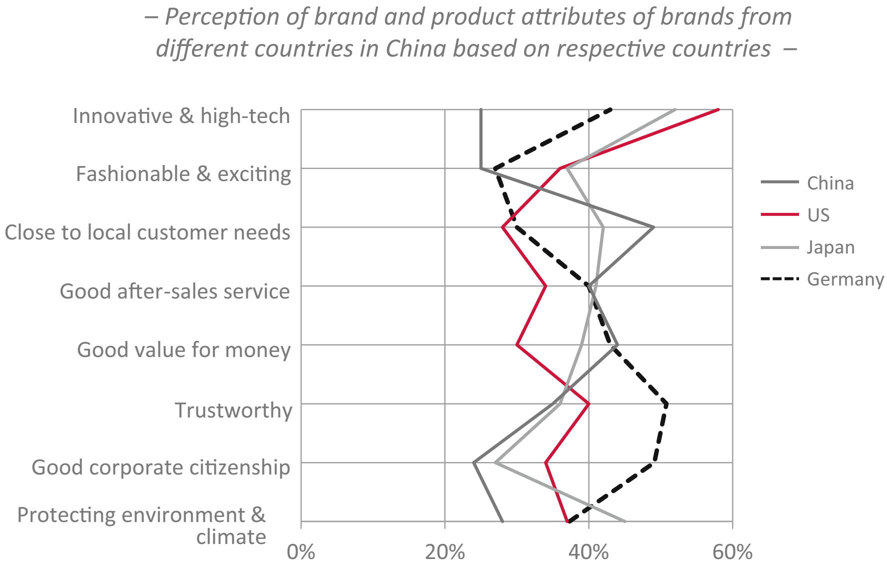


Fig. 4.9 Perception of the strengths and weaknesses of foreign brands versus Chinese brands in the eyes of urban Chinese consumers (2/2). *Source:* globeone BRIC Branding Survey—China Edition (2012)

In general, it is easy to recognize that the image of German brand appears to be strongest. This finding is confirmed when calculating the Country-of-Origin-Strength-Index, that is the average of the country performance in the 15 most relevant positive image dimensions. The analysis shows that the COO of Germany is strongest (46 %) followed by Japan (40 %) and the U.S. (39 %). However, it is interesting to see in Fig. 4.10 that China itself has already overtaken France in terms of performance across all the relevant dimensions.

When consumers develop their view on the COO, it is very important what product categories are most closely related with the country. That is, perception of strength in major end-consumer relevant industries is an important driver of the overall country image. As displayed in Fig. 4.11, the product categories Chinese most commonly associate with Germany are cars and motorcycles (78 %), machinery (57 %), home appliances (42 %) and pharmaceuticals (30 %). Other industries don't really matter that much. One could say that the perception of Germany in China is strongly impacted by German premium cars that serve as "brand ambassadors" for German brands in general.

For marketing managers, this translates into an outstanding opportunity to effectively position their products utilizing the COO potential. Most interesting: The higher the income, the stronger the perceived appeal of foreign brands. As displayed in Fig. 4.12, up to 77 % of urban Chinese consumers with monthly gross incomes above €4000 Euro have a positive attitude towards German brands—

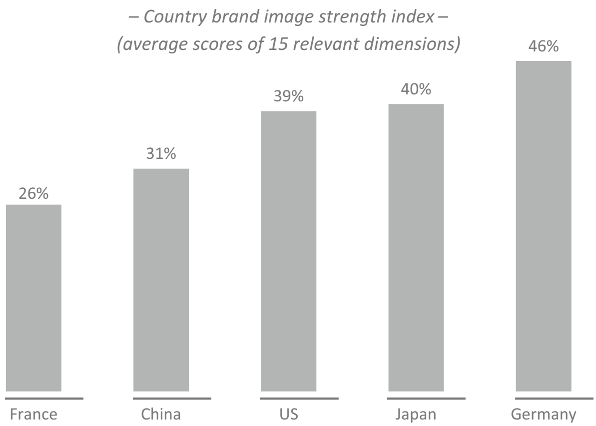


Fig. 4.10 Different "nation equities": Analysis of the country-of-origin image strength across a selection of leading industrialized countries. *Source:* globeone BRIC Branding Survey—China Edition (2012)

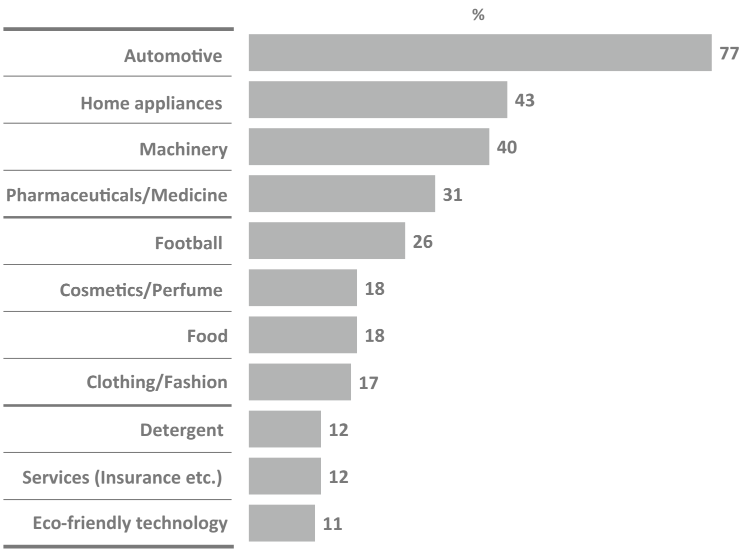


Fig. 4.11 Product categories German brands are famous for in China. *Source:* globeone BRIC Branding Survey—China Edition (2012)

especially German cars. The positive evaluation is highly visible across all social classes, but it becomes even stronger with rising incomes.

However, the survey also revealed some weaknesses: On average, only 66 % of consumers recognized the origin of a German brand correctly. Obviously some brands missed opportunities to inform local consumers about their favorable origin.

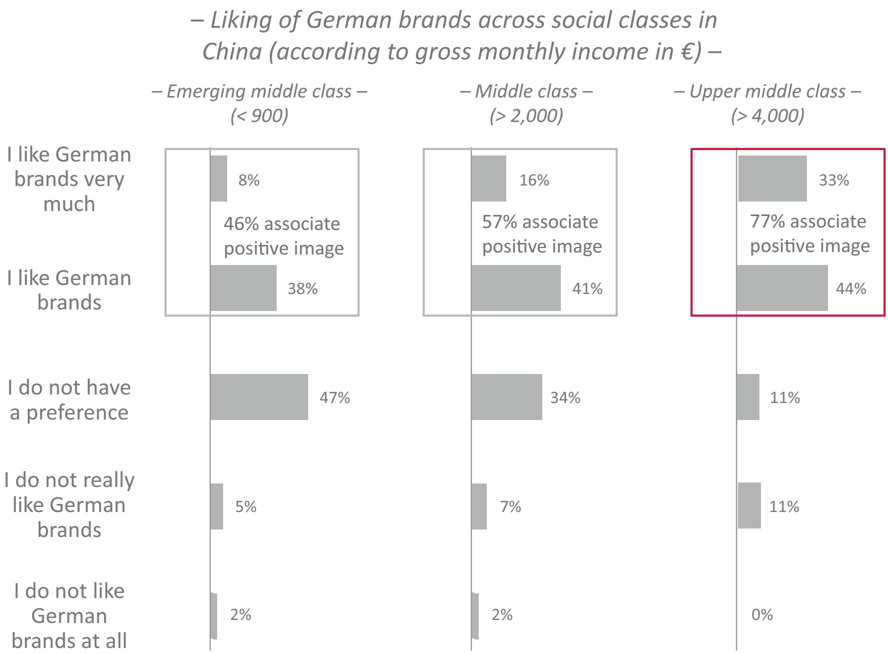


Fig 4.12 Preference for German brands across different income classes in China. *Source:* globeone BRIC Branding Survey—China Edition (2012)

This holds quite a few implications for brand management that will be discussed in the strategy chapter.

One question is closely related to the correct recognition of the COO: Which sources do Chinese consumers use in order to inform themselves about foreign brands? Figure 4.13 gives some answers to this question. At 34 %, the internet turns out to be by far the most important information channel. As a key source, it is twice as important as the second ranking source, which is family and friends at 17 %, followed by television (16 %) and the mall or the store itself (12 %). Traditional news sources such as newspapers and magazines (11 %) and radio (3 %) do not appear to be major conduits of information when it comes to learning about foreign brands. Within the digital communication orbit, it is internet search engines, social media and corporate websites that are most relevant to Chinese consumers when they gather information for their purchases.

4.8.6 Intense Wish to Explore the World

An expanding middle class, rising incomes and better education are fueling a massive rise in outbound tourism from China. Even with a more moderate GDP growth at home, the rise in Chinese foreign travel shows no sign of slowing.

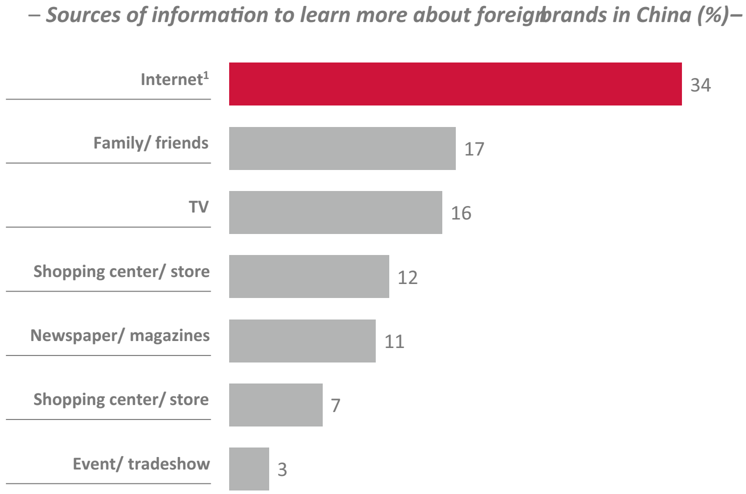


Fig. 4.13 Most important information channels for Chinese consumers to learn about foreign brands. *Source:* globeone BRIC Branding Survey—China Edition (2012)

In 2010, the China National Tourism Administration (CNTA) had predicted that by 2015 around 100 million overseas trips would be made. However, according to CNTA, in 2012 it was already 80 million mainland Chinese citizens who travelled to overseas destinations. That represents a growth number just shy of 20 % and an increase from just about five million 15 years ago.

One of the main features of Chinese travelers is their huge spending clout. At around $1000 per trip it is fairly impressive. But this average number is misleading, because it includes all visits to the two most popular destinations, Hong Kong and Macau, which tend to be shorter than most overseas trips, and they are less costly. The two cities' share in China's outbound tourism is 72 %. So it is better to put the numbers in context. According to the United Nations World Tourism Organization (UNWTO), international tourist arrivals were on track to hit the one billion mark in 2012. That means that China's share in the global market in terms of the headcount is now at 12.5 %. But according to Global Blue, a shopping tourism company, 20 % of all tax-free shopping globally is by Chinese customers.

So, Chinese are indeed big spenders and it helps overseas retailers that luxury goods are taxed much higher in China. As reported by the China Daily, Chinese visitors to the U.S. even spend $6000 per trip. The main reason is the high percentage of business people among those traveling across the Pacific. The extra distance and time for visits to the U.S. might explain the rest of the difference. According to reports on the website of the Chinese General Consulate in Frankfurt, Chinese tourists on average spend €320 Euro per day while they are in Germany. "The one thing that cannot be left out on any trip is shopping". As far as New Zealand, Chinese travelers have overtaken U.S. and British tourists in spending. They are helping to fill hotel beds in Italy and South Africa. In Paris—the most popular destination in Europe and one of the favorite designations for luxury shopping overseas—the number of Chinese tourists increased by more than 21 % in 2011. A rise of 63 % since 2010 has made them the fastest-growing single visitor group to the French capital. China is now the No. 2 market for Germany, where Chinese travelers outnumbered the Japanese for the first time in early 2010. And China has been the leading source of outbound tourists in Asia since 2003. Moreover, the Chinese are close to overtaking the Germans and Americans and becoming the nation whose tourists spend the most overseas.

A key driver for this outbound travel boom—next to rising incomes and better education—is a change in priorities. For a small but quickly growing number of mostly professional young people, personal satisfaction and exploration are becoming as important and desirable as wealth and security. And they are changing the way business is done in the global leisure industry. According to top executives in the hospitality industry such as J.W. Marriott Jr., the CEO of Marriott International, many hotels in Western countries are starting to serve Chinese-style breakfasts and are hiring more Mandarin-speaking staff. German hotel managers, in the meantime, have adjusted by placing thermos bottles with hot waters on the room tables and by hiring Mandarin-speaking receptionists. Hotels in London are including congee in their breakfast menus. And they offer quilts instead of blankets. Large department stores and other retailers like Selfridges and Harrods have started accepting China's Union Pay bank card.

So, who are these often young, well-educated, polyglot tourists? With an "Overview of Features and Characteristics of China's Outbound Tourism," a research paper published by the Henan Foreign Exchange Association recently tried to profile them. The main findings: Most of the travelers are administrators, professionals, government officials or retired personnel, with affluent income and higher education. Roughly 80 % of them have a medium or upper-medium income. Visitors with high income accounted for 20 % of all travelers in 2010. While the share of government officers has dropped sharply throughout the last decade, the proportion of "private" visitors has shot up to almost 90 %. Already back in 2009, China's total outbound tourism spending reached $43.8 billion, overtaking France for the No. 4 spot in the global ranking.

The Henan paper puts the price tag of overseas visits by Chinese citizens at $3000 per person-trip. According to the study, China's outbound travelers are primarily going for foreign brands. In Europe, they prefer apparel, perfumes and cosmetics. In Thailand and Myanmar, they opt for jewelry. In Hong Kong, they are chasing golden ornaments. In Italy, they want leather goods. The research paper stresses that the motifs for international travel have changed significantly from business and visiting relatives in the past to leisure and shopping today (Henan Foreign Exchange Association 2012).

In a fascinating analysis in April 2012 for the Huffington Post about the nature of China's global posture, titled "Chinese Centralities," David Gosset (UnderstandingChina.eu 2012) places this intense wish to explore the world and to learn about other cultures into a bigger context, juxtaposing China's concept of centrality with Washington's explicit goal of global leadership. Gosset wrote the piece as director of the Academia Sinica Europaea at the China Europe International Business School (CEIBS) in Shanghai and Beijing, and as founder of the

Euro-China Forum. He explains three important measures of centrality that help to understand how the People's Republic and its citizens see themselves in the international nexus. According to Gosset, it is one of the most ancient and common Chinese characters—Zhong—that, by applying three important measures of centrality, illustrates "China's global modus operandi."

The first is a spatial connotation. China, by giving names to its neighbors, puts them in reference to itself, displaying its Sinocentrism. Japan for example—*riben*—the "land of the rising sun," implies a location in the East of the Chinese continent. Vietnam, in the meantime, is called "Southern Viet," in reference to its Northern neighbor, China. These references, according to Gosset, bestow China with a high degree of centrality, thus positioning the Middle Kingdom as a "geographic hub with numerous links to a vast periphery." The second connotation is metaphoric, presenting China as a bridge, a "Connector Country." The third contains a moral dimension, by using "The Doctrine of the Mean"—Zhong Yong—one of the four books which constitute the foundation of Confucianism. According to this philosophy, "the superior man cultivates harmony without being weak," implying a country with many simultaneous relations in a multipolar world, where a high degree of centrality can be maximized. China, therefore, sees itself as a "necessary nation of the global village," a concept that can be translated into finance, trade, tourism, supply chains and global diplomacy.

4.8.7 Challenges Created by China's Rapid Transition

China's most celebrated and important holiday is the Lunar New Year festival, which usually takes place around late January or early February. Gifts are exchanged, homes are nicely decorated and firecrackers are set off. For a couple of days, the country comes to a virtual standstill—but only if you don't go to a train station. Every year, the lunar celebrations set off what might be the world's largest human migration. An estimated 130 million Chinese migrant workers return from their workplaces in China's industrial cities to their homes and families in the countryside. Day in day out during the year, they are toiling in factories. And so for a few days during the lunar festival, they want to see their children, elders and old friends.

In 2009, Chinese-Canadian film maker Fan Lixian released a documentary on a married couple, Zhang Changhua and Chen Suqin, who are heading home for the celebrations. Years earlier, they had left their infant children in Szechuan province with their grandmother and went to Guangzhou to work in a textile factory. They spend each day bent over sewing machines, and they save every Yuan to send home. But they are running into deep trouble with their rebellious daughter who accuses them of being neglectful. Fan's film is a moving chronicle of the social and psychological transformation that China is undergoing on its way to becoming an economic super power. "It's a family drama that serves as an allegory about where China is heading and the profound changes it has gone through, from being an agricultural society to an industrial nation," explains Fan.

During its rapid advance towards modernity, China has created a series of significant structural imbalances. Now that it is moving towards a more sustainable growth model, it is facing increasingly steep challenges. High-octane growth and steep wage hikes along the coastal growth centers have created a massive urban-rural divide. Government-controlled investment, together with the reform of the state-owned enterprise sector and land reforms, has enabled corruption and abuses of power to proliferate. Urbanization and construction on a biblical scale, as well as rapid motorization and the heavy use of coal for heating and electricity production, have caused serious environmental degradation. Many resources are so constrained that China's state-owned energy conglomerates have started one of the largest international acquisition sprees the world has ever seen. China is even buying up land in Africa and South America in order to produce enough food for its people. And the extended investment boom has created a wide range of potentially destabilizing side effects, from problematic loans in the banking system to horrendous surplus capacity in many industries, like steel and cement.

One of the most explosive and difficult to handle developments is China's revolution in transportation. The former kingdom of bicycles is quickly turning into a car and truck economy. Back in 2009, with already 170 million vehicles on the road, China managed to surpass the U.S. as the world's largest automotive producer and market. According to a survey published by KPMG in late 2013, China's car market is expected to grow to over 27 million vehicles per year by 2018, which would almost be as big as the markets of the U.S. and Western Europe combined. About a fifth of China's energy is already consumed by the transportation sector. What the country needs is a green strategy to make this sector as environmentally friendly as possible. The good news is that, according to a recent Worldwatch Institute report, China can create an average of two million jobs per year until 2020 for the greening of its transportation system. The even better news: Its leadership is fully aware of the need to complete this enormous task. Li Keqiang has been conspicuously present in green development circles even before he became prime minister in late 2012. More than $1.3 billion was invested in China's electric vehicle industry in 2010 alone. Worldwatch estimates that China's share of global hybrid and electric vehicle production could rise to 15 % by the end of the decade. And within just 6 years after opening its first high speed rail (HSR) line, it has become world leader in HSR development. The Medium and Long-Term Rail Network Plan is projecting the total operational length of the network to double to 18,000 km by 2020. China's urban rail system experienced a comparable expansion and is now on the verge of an accelerated expansion, with the many added projects that have been announced in the second half of 2012.

There is even more to handle. The rise of Western influences, as well as attractive income and career opportunities for young Chinese, are starting to tear many families apart. Western influences and a much improved mobility are also cultivating aspirations of a more individualistic generation. Since the opening of China with the economic reforms that started in 1978, thousands of foreign brands have flooded China. These brands are not simply products but they also carry cultural meaning and messages that are attached to them. Advertising campaigns—in many cases global campaigns that are translated or slightly adjusted to China—introduce ideas like individualism, hedonism, self-indulgence, freedom, adventure or even rebellion. Over time, such messages definitely have an impact on traditional value systems and introduce shifts in values especially with the younger generation. Similar developments have also been spotted after the collapse of the Soviet Union and its former satellite states. But it is not only advertising that is conveying such new ideas and creating new desires. Western culture, ideas and values are also transferred by Hollywood movies, popular TV series, international travel, exchanges students coming to China, computer games and—most of all—via the internet.

Moreover, there is a growing demographic deficit. The population is aging. Over the past 30 years or so, China's total fertility rate has fallen from 2.6 to 1.56, a number well below what it needs to hold the population steady. As a result, the median age—at which half the population is younger and half is older—has risen from 22 to 34.5. With this ratio, China already looks more like a mature country. The consequences are profound. China will have a huge number of pensioners before it has developed the necessary network to look after them. Some observers even fear that China will be old before it gets rich. Halfway through the current decade, slightly less than 10 % of China's total population is over 65. The corresponding figure in America is 13 %. But China will reach 26 % by 2050. The People's Republic started to set up a national pension fund in 2000. But the unfunded liabilities have reached 150 % of GDP. Almost every second province's pension fund is in the red.

The greying of China's society spells trouble for its reputation and its sustainability as the world's factory because its enormous pool of cheap workers from the hinterlands will start to dwindle in a few short years. Millions of Little Emperors will face a growing economic burden to uphold their family finances. And rising wages are starting to eat away at China's low-cost advantage. More recently, after the financial crisis of 2009, weak markets in Europe and America have intensified structural imbalances and increased the pressure on the leadership to accelerate China's economic transition from a model that is based on investment and exports to an economy that is driven more by consumption and the private sector.

Combined, all these challenges add up to a severe test. China's leaders—especially its new fifth generation—need to master a delicate balancing act between growth, stability, technological upgrades and maintaining a habitable environment for the most populous country on earth. This need for reform is even more pressing thanks to the rising aspirations of the internet-savvy, more individualistic generation that is now swelling the ranks of the new middle class. The importance that China's political elite places on stability was very visible in August of 2012 during the murder trial of Gu Kailai, the wife of disgraced Communist Party leader and rising star Bo Xilai. The most remarkable feature of this judicial procedure was its speed. A short seven hours long, it was a hasty trial by any standards. And yet, it served two very important goals. It stopped the media from focusing for too long on sensitive issues related to this case, among them the billions of dollars the elite couple had stashed away overseas. More importantly, the high-speed trial helped to smooth the country's transition to a new generation of leaders.

Most of these challenges are vigorously addressed in the current Five Year Plan (2011–2015). This shows that the leadership is aware of what is coming towards them. But a rough global economy and growing demographic tensions are promising hard work ahead. Miracles cannot be expected. But at the same time, the Party's ability to achieve its stated goals has constantly been underestimated. The Communist Party is now headed by more highly-educated, younger cadres. They often have foreign post-graduate degrees, international experience and a proven track record earned during assignments in the provinces. And they are constantly releasing the pressure that is building in the system by slightly loosening the one-child policy, liberalizing travel restriction, adding consumption choices and allowing freer local-level elections. On the other hand, China's leaders have shown that they will not accept any challenge to the Communist Party as the only political force in China. Officially, "Communism with Chinese Characteristics" will remain the only choice. Different opinions will not be tolerated and it can have severe consequences for those who speak up against the system in public.

4.8.8 Preferences of the "Modern" China

In August 2012, with much fanfare in the media, China updated its centuries old standards for filial piety. The All China Women's Federation and the China National Committee on Ageing released new moral guidelines on how young people can aim to take better care for seniors in the modern era. The old filial piety manual was first written by the scholar Guo Jujing back in the Yuan dynasty during the fourteenth century. Guo, at the time, collected tales of obedient children that took care of their elders in a commendable way. These manuals were printed for centuries but were banned by the Communist Party for being "backwards." When they were republished in 2012, it was not the first effort to re-establish old moral guidelines. In early 2011, a draft amendment with similar content was presented to China's National People's Congress. And in January 2011, the Civil Affairs Ministry submitted a proposal to the State Council requiring adult children by law to regularly visit their elderly parents. If they don't, parents can sue them. Before that, Chinese courts rarely accepted such lawsuits. But some did. The Qingdao Evening News reported such a case in Shandong in early 2011 after a local court ordered three daughters to each pay their 80-year-old mother between RMB 350 and 500. The mother had claimed that the daughters ignored her.

The new standards suggest that adult children spend holidays with their parents, cook meals for them, make weekly phone calls and teach them how to use the internet. The updated guidelines also include listening to the parents' stories about the good old days, watching romantic comedies with them and making sure their health insurance is up to date. Even support to help widowed parents get remarried is featured in the manual. The updated moral compass highlights two important things about China. The first is the fact that being filial has always been a key part of

Chinese culture. The second is that China's elite now deems it necessary to counter some forces that were unleashed during the country's rapid transition and now threaten to rend the family fabric.

Among the forces triggering this corrective drive in China is a rapidly ageing population. Elderly "empty-nesters" have become an important social issue. In 2012, China had about 185 million people above the age of 60, according to China Daily. Almost half of them live independently, as shown in the China Urban and Rural Elderly Demographic Situation Tracking Survey. But China's young generation—and its millions of migrants in the coastal areas—are too busy making money and building careers to visit their elders as often as is dictated by rules and tradition.

In an online survey launched by internet portal Sohu in the summer of 2012, just slightly more than half of the respondents supported the idea of making "visiting parents regularly" a legal duty. China's massive migration moves well above 150 million people away from their home towns for more than 6 months every year. Many of these migrant workers can hardly afford the expense of visiting their parents frequently, not least because they are saving every Yuan and sending it home to support their families. The same goes for young Chinese who left their home towns to attend universities.

The need for more care and attention to be paid to the elderly has become one of the most pressing and widely acknowledged issues in China. The country now has one of the world's highest elderly suicide rates, ranking behind only South Korea and Taiwan. Before the age of reforms and urbanization, most elders lived in intimate neighborhoods comprised of courtyard houses. Narrow lanes passing their houses allowed them to be surrounded by relatives and friends. But now they are increasingly moving into lonely high-rise buildings. Many of them feel neglected or even forgotten.

At the heart of the problem is a threat to China's collective spirit and system. While elderly people can still be seen in almost every city park engaging in social and group activities such as singing, dancing, gymnastics and board games, the younger generation is preoccupied with their careers and the accumulation of personal wealth. The old Chinese idiom of "working hard without complaint" (*bu gan gao lao*) is still very much alive. But the cost of living is rising fast. And it constantly requires more effort and energy, leaving increasingly less time for social activities.

In addition to money and hard work, there is also a growing wish for self-determination. An increasingly large choice of different brands, music and arts allows for the better expression of one's own tastes. For an increasingly ambitious and upwardly mobile generation, ego gratification also has become a primary urge. And the expansion of private industries creates almost unlimited chances to start and own a business and to control one's own destiny. With foreign influences and a wide range of fashions comes the wish to distinguish and express oneself and make a statement. And many young Chinese want to enjoy their financial independence and city living before their family presses them all too hard to marry—and before mother-in-laws, mortgages and children are driving their lives. It is clear that as a result of the economic growth and related modernization processes, China is undergoing dramatic cultural and social transformations from a collectivistic society to one which embraces many aspects of individualistic and materialistic society (Xiao 2005).

These influences are reshaping China's psyche and society. Once, grey conformity dominated all aspects of life. Now, individualism is creeping in. In his book "What Chinese Want: Culture, Communism and China's Modern Consumer," author Tom Doctoroff describes how the nation is starting to cheer self-determination. Doctoroff not only details China's "underground but dynamic" rock scene, where "names fly in the face of collective harmony," he also observes that "in coastal cities, tattoo joints, purveyors of indelible badges of individualism, are as ubiquitous as massage parlors."

The rapid advance of new communication technologies is furthering this creeping individualism. Smart phones with all their functions, from instant messaging to video sharing, are individualizing communication. And they are offering platforms that help individuals in an emerging civil society to organize and patronize according to their tastes and likings more than before, which results in an orientation that is far less family-focused. Western and local brands have started to engage with this developing psyche. Source, a Shanghai-based lifestyle clothing brand, sums up its reading of the growing individualism in a telling way: "There are those who find a need to live their lives the way they want, to express themselves, to have their own identity." More and more brands are discovering that paying more attention to this trend can make a strong commercial case. Late last decade, Pepsi hired former MTV and Universal Music executive Harry Hui as its chief marketing officer in China. The goal is to engage even more with China's rising popular culture and its flourishing music scene.

Historians and China watchers have always explained to us that the Chinese culture is characterized by obligation and duty rather than by individual freedoms and that for early Chinese thinkers there is no such thing as unconfined autonomy or freedom of will. Autonomy, in a Chinese context, is rather an authority granted to the individual to fulfill his or her potential as a member of the collective. In this sense, individualism only emphasizes the power of an individual that stems from within the context of its unity or collective.

When Mao Ze Dong took power, he reinforced the key institutions of this family-run country: Mao eliminated landowners, collectivized farms and sent many people to work in collectivist communes. But in recent years, urbanization, new-found wealth and increased mobility are attacking this collective order and mindset. The rise of the Little Emperors has contributed its share.

Academic and marketing professionals studying the motifs of Chinese consumers are starting to pay a lot of attention to the spread of individualism. In a paper on "The influence of personal value differences on buying decisions" for the Shanghai Jiao Tong University, authors Zhang Xin-an and Li Ly warned their readers to "not take China as a single market," but instead to take it as a continent comprised of many distinct countries, while assuming "that China's coastal consumers are more individualistic in their value priorities" (Doctoroff 2013).

The paper, which was published in 2008 in the International Journal of Market Research, warns that “ignoring the heterogeneous nature of China’s culture is part of the reason why many foreign corporations have failed.” One of the aspects not taken sufficiently into account in many cases seems to be the varying degree of individualism. “Although Confucian values still have a predominant position in Chinese people’s daily life,” the paper states, “the coastal-inland dichotomy of industrialization may lead to values division between the two regions.” For coastal regions, there may be crossvergence effects since they have a higher industrialization level and more contact with imported products.” Accordingly, inland regions in China may retain more of the traditional values because they have less interaction with the industrialization process. The conclusion of the paper doesn’t leave a doubt: “We found that coastal consumers are significantly more individualistic than inland consumers, while inland consumers appear to be more collectivistic.”

This rising differentiation in values and mindsets creates a strong message for marketing executives. Approaching China as a homogenous mass market is no longer a valid strategy and can be punished severely. The growing individualism of Chinese urban consumers is now visibly reflected in their buying choices. Our project experience and many advertising pretests confirm that Chinese consumers increasingly seek to stand out from the crowd and are growing increasingly sophisticated and individualistic. Their purchase decisions are heavily influenced by that. As a consequence, younger Chinese and members of the middle income segment tend to prefer brands that are associated with fun, excitement as well as authentic expressions of the individual self. Product design is extremely important for them. On the other hand, brands that are targeting older and more traditional people need to convince more through efficiency and performance.

4.9 First Implications for International Marketers

Western companies doing business in China need to understand the rapidly changing dynamics of marketing and consumption. Differences in traditional values, demographics, income, growth, urbanization, foreign influences and the drastic change of family structures are forcing Western brand managers to carefully study the basic motivations of Chinese consumers. These are changing constantly due to aforementioned structural and growth dynamics. Targeting Chinese consumers can be risky business if not conducted properly but understanding the changing patterns of consumer demand is a precondition for developing powerful brand positioning that supports brand equity and sales development. Unfortunately, Western companies seem to be slow to react to changing conditions in China’s consumer universe. In many cases European and American brand managers even lack a true desire to understand the basic motivations of Chinese people, as repeated polls and studies have shown over time. This lack of knowledge can end in disaster because the low-hanging fruit has already been picked. “I do feel like America has not yet really gotten China. There is still not, when you go back to the States or when you go back to Europe, a true desire to understand the basic, the fundamental motivations of Chinese people", says Tom Doctoroff (2013).

For many international companies, hopes, habits and aspirations of Chinese consumers beyond the mammoth cities along the coast—which are attracting the bulk of foreign business—still remain shrouded in mystery. Most of them know by now that Chinese consumers are very brand-conscious and that they either go for bargains or for the most prestigious brand they can afford. They want simple functionality and durability, they favor convenience and many are driven by the desire to show off their new wealth. However, rising income is fueling spending power as well and the further you move inland into the less wealthy—but rapidly developing—inner provinces, the stronger the sense of community becomes. You may no longer need to convince an individual customer to buy a product; it may be more promising to rather target communities. Customers further inland are shopping less frequently, have less disposable income, and are more influenced by the advice and reviews of their peers and they are less inclined to go impulse-shopping. This means that shelf displays, free gifts and product samples are generally more effective in the richer Tier 1 cities, while radio advertisements or small countertop displays may work better in local stores further west in China.

Moreover, shoppers in big coastal cities seem to rely more on their own purchasing experiences, while in Tier 2 cities they are more influenced by the opinions of their social groups, and in Tier 3 locations, the shop owner's advice or the packaging of the product might influence their purchasing decisions more. There are also interesting specifics about media and entertainment habits. While TV remains a powerful medium across the whole country, the viewing preferences vary from coastal areas to the farmland. Along the coastal regions, TV is very much an entertainment medium. People prefer to watch sports, music, business and nature programs. Further inland in Tier 2 cities, local news is in higher demand and in Tier 3 cities, international news, education and career-oriented programs are high up on the priority list of viewers. If you want to run an effective campaign, you need to explore these differences for your own business.

If you move west of the belt of richer provinces around Shanghai (Fujian, Zhejiang, Jiangsu and Shandong) you will observe that brand power has only recently been established. Many consumers in inner provinces like Hubei, Shaanxi, Guizhou and Hunan still claim they are unwilling to pay more for a famous international brand. Until late last decade, brand experts reported that by moving from Tier 1 to Tier 3 cities in China, the number of foreign brands in the top ten favorite list was halved from about eight to four. However, this means good growth prospects down the road.

Lifestyle attitudes are completely different from Western China if you go to the Eastern coast and to China's South and consumers are becoming increasingly individual. In a study on Chinese consumers' attitudes in these coastal regions, media agency Vizeum created a priority list of how Chinese consumers define and rate themselves. According to that list, consumers in these regions are "very happy, even busy, and have lots of pressure at work; they are ambitious, sensitive with the latest high tech products, and willing to take risks to succeed". Moreover, they want to be popular and know the latest trends before most of their friends learn about them. While people all over the world see luxury products as extensions of themselves, in China consumers are taking this nexus very seriously, and while many consumers still can't afford expensive brands, there are hardly any negative opinions about people who own and flaunt valuable handbags, watches, cars or jewelry.

As we have mentioned earlier in this chapter on China, consumption motifs in the People's Republic are closely related to cultural values and influences. Confucianism lends high relevance to status and social prestige, and collectivism produces a strong sense of social responsibility. There is a strong sense to meet the expectations of family, friends and peers. Nonetheless foreign influences and the modernization driving the country, are at the same time fueling the desire to explore the world and the wish to be recognized as a driving force of China. Many consumers are buying products that help them express their desire to belong to the movers and shakers. The trend towards individualization results in the discovery of the "me" and often eventuates in the wish to select a brand that fits the own emotions and individual style.

4.10 China's Media Landscape

China's media landscape is in midst of an enormous expansion that started in the 1990s. Accelerating economic growth, rising literacy rates, an improving education and a soaring number of people with higher income are the drivers for the broadening of the print and broadcast universe. During recent years explosive growth of internet usage and the social media landscape has added to the growing flood of information channels that are still strictly controlled by the authorities. An increasing number of newspapers and magazines are addressing the expanding portfolio of private and public issues. Internet portals, social networking platforms and micro blogs are also reaching into the most distant corners of the country.

The rapid rise of China's middle class is also reflected in the growing enthusiasm for fashion magazines. They are thick and bursting with advertisements for luxury handbags, lipsticks, smart phones and fashion labels. In 2011, the editors of Cosmopolitan started splitting its monthly issue because it became too thick to print. Elle, after having inflated to 700 pages, started to publish twice a month, and the news room at Vogue added four more issues per year, just to satisfy the advertising demand. According to the New York Times, Hearst has introduced special bags for women to carry these heavy magazines home. In the first half of 2012, advertising spending for women's consumer magazines surged almost 17 %, around four percentage points higher than reported urban income growth, and more than twice as fast as GDP.

When the reform process started in the late 1970s, there was less than one TV receiver per 100 people. Less than 10 million Chinese had a television set. Now, roughly a billion Chinese can watch TV. While in 1965, there were 12 TV and 93 radio stations between Shanghai and Urumqi, there are now approximately

700 TV stations, 3000 cable channels and roughly 1000 radio stations. China's only national TV network, CCTV, controls broadcasting and employs around 2400 people. CCTV falls under the supervision of the Propaganda Department, which is responsible for content, and the Ministry of Radio, Film, and Television, which oversees the operational side of the business. The Chairman is a Vice Minister from the Ministry. Key directors and other high ranking managers are appointed by the state. CCTV, which now runs 22 national channels, produces its own news casts three times a day and all local TV stations in the country are required to broadcast CCTV's 7 pm main news show. An estimated 500 million Chinese watch this program regularly. CCTV also has the monopoly on purchasing overseas programs.

The expansion of newspapers is not less exceptional. From slightly more than 40 Communist Party papers in the late 1960s, their number has risen tenfold to almost 400 in 1980 and more than 2200 today. According to some estimates there are now more than 9000 magazines and journals in the People's Republic.

As a reflection of the reform and opening up process, media in China has become more diverse, critical and even trend setting. The enormous expansion of the media orbit has started to exhaust the capacities of vigilant regulators and higher authorities. At the same time, the advancement of the internet, raging competition, improved professional training for journalists and new communication technologies are helping to weaken the grip of the state on the media. The People's Daily for example, once harshly controlled under Mao—and used as a weapon against his enemies—has greatly expanded its coverage and opened up channels for criticism through letters to the editor. Topics that once were taboo are now being reported, including corruption cases and delicate social issues like unemployment and the urban-rural divide. However, the Party's monopoly on power remains an inviolable restriction and when disasters strike, students occupy the streets of the special administrative region Hong Kong or high ranking Party members are involved in wrongdoing, the authorities will swiftly distribute internal guidelines and binding recommendations on the wordings of reports to severely inhibit the news flow.

With China trying to broaden its cultural footprint across the world, leading broadcasters and papers have even begun to expand globally. In late 2011, CCTV announced a major effort to grow its worldwide audience. Overseas staff will have increased almost tenfold by 2016. A key part of this plan is English-language services produced in Washington and Nairobi. International media has labeled this initiative as China's search for a "cultural aircraft carrier." A new English-language newspaper, TV channels for Russian and Arabic audiences and a 24-h English news station run by Xinhua state news agency are part of the strategy. China Radio International bought frequencies in the U.S. and the China Daily started distributing supplements in papers like the Washington Post, New York Times and the Daily Telegraph.

The Beijing Olympic Games delivered a major push for China's media and global, as well as local Chinese companies, to seek a foothold in this potentially huge market. While large networks in the U.S. register average prime-time audiences of around 30–40 million people, CCTV counted half a billion people for the opening ceremonies in 2008. With all of its channels CCTV reaches more than a billion viewers. That's by far larger than every major TV station in Europe and the U.S combined.

The advancement of the Internet, with more than 640 million users in China in early 2015, has vastly broadened the reach of the country's media. The prime example is China's largest internet portal and media website Sina. Founded by a 32-year-old Beijing University graduate, it became the hottest website in China in 1999 when it posted reports of the NATO bombing of China's Belgrade embassy only minutes after the official news media. With the help of foreign sources the site provided more news on the bombing than any other mainland news outlet. In June 2012, Sina reported a loss of $13.7 million for its first quarter, even though advertising revenue increased by 9 %. Income from the growing ad business was used to give a major push to Sina's most important corporate venture, its micro-blogging site Weibo.

Sina Weibo has quickly risen to become one of the top three social networking platforms on the Chinese mainland with reportedly more than 500 million users in 2013. This is a major accomplishment in a country that has by far the world's most active social media population, with 91 % claiming they have visited a social media site in the previous 6 months, as compared to 30 % in Japan and 67 % in the United States. The other leading platforms on top of current rankings in China are QZone, Tencent's WeChat and Renren. Weibo covers well over half of China's netizen pool. Launched in August 2009, Sina Weibo successfully attracted one million registered users within only 3 months. Part of its success is Sina's skillful leveraging of its reputation as a news portal. Another reason is the large number of hot topics that are generated on Weibo. The website initially emulated Twitter, but quickly evolved into a completely different product. According to the "Impact of Social Media in China" study by Booz & Company (2012), Weibo users "mainly share jokes, pictures and videos." Remarkably, 62 % of all posts on the platform are reposts. This is twice as high as the 31 % on Twitter. On the downside, this leads to a massive spread of trivial information, closely related to daily life. However on the upside, it creates a channel where key users can create a lot of momentum for skillfully crafted campaigns.

A typical day in the life of a Chinese media user, according to media company Vizeum, is this: Constantly being on the phone, listening to the radio in the early morning, reading the e-news in the office. From then on they are permanently online, tend to socialize in the afternoon and evening, and watch TV later at night. In terms of usage it looks like this: TV and radio are mainly for relaxation and entertainment, print is for learning and identifying anecdotes to talk about. The internet is used for learning, as well as for entertainment, socializing and shopping.

With its flat and strongly interconnected structure, Weibo—like other micro blogs and websites—enables a vigorous public dialogue that is weakening the influence of traditional media. Moreover, social media in China is starting to turn the traditional flow of news on its head. The mode of interaction is switching from linear to interactive. For decades, Party papers investigated news and distributed the official line to all publishing outlets in the country. Public opinion was shaped in a one-way process. Now, the traditional media's scope of reporting and campaigning is starting to diminish. More often than before, social media is identifying new stories, topics, stars and fashion. Increasingly, traditional media are picking up such stories for their own coverage. According to the Booz report, six of the top ten PR crises in China in 2011 were triggered by micro blogging. The reach of social media in the People's Republic becomes apparent when you compare the number of followers across the spectrum. CNN has 5.9 million followers on Twitter, while Lady Gaga has 29.3 million. On Weibo, the actress Yao Chen has 21 million followers, while the New Weekly, one of the most popular print titles in China, has 4.4 million.

Companies and brands are starting to leverage this phenomenal reach. Weibo, according to the Booz & Company study, counts more than 30,000 companies that are promoting themselves on the platform. One of the examples given in the study is 360buy. The company initiated its Weibo marketing in late 2011. It added a promotion button on its website directly linking to the 360buy official webpage, where the product of interest is automatically added to a stand-by shopping cart. In this new, but rapidly growing "like economy" brand information can spread like wildfire through interactions with friends on social platforms. Since Chinese netizens send out many more re-tweets than their peers in other countries, thoroughly planned campaigns have the potential to achieve greater effects than traditional advertising. This is true for all its aspects, from brand awareness and all the way to advance purchases.

Therefore, it is fair to describe Weibo as the place in China where culture is being made. It can be recommended to anyone who is interested in understanding modern China and it is also a place where corporations can better tailor their products and communications to the needs of a growing, more complex, and more demanding Chinese consumer base. But how did Sina Weibo become a top brand in micro blogging? It is clear to see that the platform borrowed elements from Twitter and Facebook in order to create a hybrid platform that reflected the needs of modern Chinese consumers. In addition, Sina was smart enough to understand that the other major target group was corporations willing to pay for services. Therefore, Sina Weibo started offering information to corporations about online user behaviors and trends. Consequently, international and local brands are making intelligent use of this new marketplace that is growing at a tremendous rate, and since many foreign brands face the challenge of making Chinese consumers aware of their existence, many of them have begun to establish their brand by telling their stories on Weibo or WeChat.

So, what should multinational companies be aware of when they analyze and approach the media in their BRIC target markets? Media in China is decentralized and there are a plethora of publications with very few having a national distribution. Therefore, multinationals will have better success targeting regional publications that are operating in the relevant field of interest within the country. Advertisers should also pay close attention to Sina Weibo and Tencent's WeChat as it can act as a way to get a story told in multiple print and broadcast outlets and to raise a story to a national audience. In many areas it seems that the rise of digital communication has completely changed the way media is used in the People's Republic. While until recently Chinese journalists had a reputation for being highly uncritical and easy to steer through media cooperation and 'travel allowances,' nowadays reporters are young, aggressive and demand locally relevant angles.

References

Agence France-Presse. (2012, July 02). *Haier aims to upgrade 'Made in China' reputation*.

Airports Council International. (2012, January–March). *Year to date figures*.

Atsmon, Y., Magni, M., Li, L. & Liao, W. (2012). *Meet the 2020 Chinese Consumer*. In: McKinsey Insights China, Hong Kong.

Bloomberg. (2012, July 22). *Louis Vuitton Bags Defeating Jet Li Heroes in Hong Kong*.

Booz & Company. (2012, August 30). *Impact of social media in China*.

Business Insider. (2010a, July 28). *Huawei Technologies: Copycat turned Innovator*.

Business Insider. (2010b, July 28). *Here are the 10 Chinese brands set to take over US Households by 2020*.

Business Week. (2008, July 02). *China has more millionaires than France*.

Campaign Asia. (2012, April). *China's brands head west*.

Carnegie Endowment. (2012, July). *In search of the global middle class*.

China Business Review. (2009, January–February). *Understanding China's middle class*.

China Daily. (2012, August 06). *Chinese prefer foreign brands*.

China Quarterly. (2005, September). *Bourgeois Bohemians in China? Neo-tribes and the urban imaginary*.

Credit Suisse Research Institute. (2010, February 25). *Great brands of tomorrow*.

Credit Suisse. (2013, October 21). *Analysing Chinese Grey Income*. Accessed January 30, 2015, from https://doc.research-and-analytics.csfb.com/docView?language=ENG&source=emfromsendlink&format=PDF&document_id=805694960&serialid=ezimp%2F9hHWvu0FbB%2BV70gy7fyON5IwyCCOqhhWUMQOo%3D

Deutsche Bank Research. (2011, February 03). *International division of labour in R & D—Research follows production*.

Doctoroff, T. (2013). *What Chinese want: culture, communism and China's modern consumer*. New York: Palgrave Macmillan.

Economist. (2012, May 26). *Dipping into the kitty*.

Financial Times. (2012a, July 23). *A slowdown is good for China and the World*.

Financial Times. (2012b, March 05). *China's growing inequality is undermining the regime*.

Foreign Policy. (2012, February 09). *We're all state capitalists now*.

globeone. (2011, September). *BRIC branding survey*. Accessed February 01, 2015, from http://globe-one.com/wp-content/uploads/2011/09/BRIC-BRANDING-SURVEY_Top-12.pdf.

globeone. (2012, March). *BRIC branding survey—China edition*. Accessed February 01, 2015, from http://globe-one.com.

globeone. (2013a, March). *Emerging market brands survey*. Accessed January 30, 2015, from http://globe-one.com/brands-from-south-korea-brazil-russia-india-and-china-are-still-often-hidden-giants-in-europe-2-4580/

globeone. (2013b, January). *Market-driven positioning—Key to success in growth markets*. Accessed February 01, 2015, from http://globe-one.com/wp-content/uploads/2013/07/130708_MDP_globeone_discussion-paper.pdf

Henan Foreign Exchange Association. (2012). *Overview of features and characteristics of China's outbound tourism*.

HSBC Global Research. (2011, September 05). *China battleground*.

Hurun. (2013). The Chinese Millionaire Wealth Report 2013. Accessed January 30, 2015, from http://www.hurun.net/en/Research.aspx

Los Angeles Times. (2012, July 26). *Chinese maker of U.S. Olympic uniforms baffled by backlash*.
McKinsey. (2012, June). *Consuming China: How to get ready for the next stage*.
Mason, R. (1993). Cross-cultural influences on the demand for status goods. *European Advances in Consumer Research, 1*, 46–51.
Morgan Stanley Smith Barney. (2012, May). *Power brands: Winning the global battle for consumers spending*.
Naisbitt, J., & Naisbitt, D. (2010). *China's megatrends: The eight pillars of a new society*. Collins Business.
Real Capital Analytics. (2012, July). *Most active markets*.
Seeking Alpha. (2012, August 05). *The silver linings in China's slowdown*.
The China Business Review. (2000, May/June). *The branding revolution in China*.
UNCTAD. (2012, March 30). *China world's largest exporter, importer of ICT products*.
UnderstandingChina.eu (2012, April 23). *Chinese Centralities*.
US-China Business Council. (2012). *US-China trade statistics and China's World Statistics*. Accessed January 30, 2015, from http://www.uscc.gov/sites/default/files/Research/US-China_TradePatternsSinceChinasAccessiontotheWTO.pdf
Want China Times. (2012, July 31). *The drivers of China's sustained growth move west*.
White, P. D., & Cundiff, E. W. (1978). Assessing the quality of industrial products. *Journal of Marketing, 42*, 80–86.
World Bank. (2013). China 2030: Building a modern, harmonious, and creative high-income society. The World Bank and the Development Research Center of the State Council, P. R. China. Accessed January 30, 2015, from http://www.worldbank.org/content/dam/Worldbank/document/China-2030-complete.pdf
Xiao, G. (2005, August 08). *The Chinese consumers' changing value system*.
Xinhua. (2012, March 19). *China soon to become 'world's top importer*.
ZDNet. (2012). Lenovo tops HP to become No. 1 PC maker. *Results Table from Gartner Research*. Accessed January 30, 2015, from http://www.zdnet.com/article/lenovo-tops-hp-to-become-no-1-pc-maker/

5 India: The Emerging Star

5.1 Introduction

With over 1.2 billion people, India is the second most populous country on earth. Being the third largest economy in Asia behind China and Japan, India is quickly emerging as one of the most interesting and challenging destinations for global brands. India is home to the third largest middle class on the planet, which—due to the lack of a generally accepted definition—is estimated at somewhere between 100 and 300 million people. At $5138, its income per capita at purchasing power parity is still ranked lowest compared to the other BRIC countries. But India offers a huge demographic dividend. A quarter of the world's young people live here. 60 % of Indians are below 30 and the median age is 26 years. It is estimated that this young age bracket will contribute an additional 2 % per year to the country's GDP growth in the foreseeable future.

India's society and markets are highly complex and diverse. There are 28 different states and 22 official languages, not to mention hundreds of dialects. There are uncounted variations of cuisine, attire, festivals, customs and consumer mindsets. Try to plan a business trip to India or schedule a research project and you are almost sure to run into one or more local festivals. The seventh largest country by land area has always been a class-driven society, where income, education and occupation define your "place" in society, who you sit down at the table with or might want to marry.

India is a land of paradoxes, with remarkable high-technology, many world class companies and a leading position in business process outsourcing. However, it is also the country where more than two-thirds of households and factories need to deal with power cuts almost on a daily basis, where red tape constitutes a major challenge to investment and where four out of five people live on less than $2 a day. At any moment, according to the well-known Indian-born American healing pioneer and writer Deepak Chopra, "India is likely to be gracious and hot-headed, fawning and arrogant, proud and ashamed, spiritual and crass." To those who don't know this complex country, the bewildering mélange of peoples, languages, colors,

N. Schaffmeister, *Brand Building and Marketing in Key Emerging Markets*,
Management for Professionals, DOI 10.1007/978-3-319-19482-0_5

gods and religions is quite hard to comprehend. To those who do, it is an incredibly fascinating, attractive, inspiring and rich place, bursting with life, colors and contrasts—a living and thriving work of art.

A closer look at the leading magazines in India reveals the enormous linguistic diversity. The largest publication in terms of readership is "Vanitha," a magazine that features family, fitness, money, beauty and fashion. It is written in Malayalam, a language used by roughly 35 million people in Kerala. The largest English language magazine is only ranked 4th in the list, with a distribution that is a third less than Vanitha. The 2nd and 3rd ranked magazines are published in Hindi. Also, the languages of India belong to several families. More precisely, the Indo-Aryan languages, a branch of Indo-European, are spoken by 74 % of Indians, whereas Dravidian languages are spoken by around 220 million people, mostly in Southern India. Standard Hindi is the official language of the Republic of India. English—spoken by around 125 million people—is the secondary official language. The largest religious groups, according to the latest Census of the Ministry of Home Affairs, are Hindus (80.5 %) and Muslims (13.4 %), followed by Christians, Sikhs and Buddhists.

During the last two decades, India has significantly improved its primary education system. Although the enrollment is now at 93%, the participation in higher education still lags behind, when compared to other emerging markets peers. Less than 20 % of pupils leaving secondary education enroll in tertiary education within 5 years. Researchers attribute this to "poor quality of the universities in India." And due to widespread dissatisfaction with the secondary school segment, there are now so many parents who want to improve their children's learning that the State of Gujarat has more coaching institutes—or "cram schools"—than schools in the dysfunctional state education system. This growing demand for extra-curricular learning—mostly in physics, chemistry or math—is another sign of India's rapidly growing middle class. Once, private tutors were a pure luxury that only rich parents could afford. Now, with rising international competition, parents want to prepare their children well for the ascent of the country. This makes cram school teachers the new heroes in an unfolding education boom. The overall improvement, nevertheless, is very visible. According to the 2011 census, India's 247 million households have seen literacy rates rising from 65 % in 2001 to 74 %. It has improved sixfold since the end of the British rule.

India's capital and political center is New Delhi. Its economic and financial center is Mumbai. It can be said that India has its own version of Silicon Valley, the IT cluster around Bangalore. Foreign investors and Indian economists have identified eight Tier 1 cities across the country. They are the hubs of retail, business and innovation. They are Mumbai, Delhi, Bengaluru (Bangalore), Hyderabad, Chennai, Kolkata, Ahmedabad and Pune. Among the 36 Tier 2 cities with a population between one and five million are Surat, Nagpur and Jaipur. On the latest count, there are more than 7900 towns with a population over 50,000 inhabitants each. This is the urban space that has most recently displayed the highest dynamic in the retail sector.

India's urbanization is rapidly gaining speed, but its retail landscape remains highly unorganized. Still, more than 90 % of sales are generated in the country's informal and unorganized segment. In the food sector, the dominating "player" is

India's "kiranas," the local version of the neighborhood mom-and-pop-shop. There are also very large traditional vegetable and flower markets where in many cases one trader family only sells one kind of vegetable like onions or melons—nothing else. Large malls and supermarkets, on the contrary, are opening up in the Tier 1 cities and are also preparing the entry into selected Tier 2 cities. Delhi and Mumbai are still the key markets for luxury goods. The nationwide luxury retail market has reached $7.6 billion in 2012. At this size it is still minuscule. In 2012 (Economic Times 2012a), Gucci and Hugo Boss "had 3 stores in India as opposed to 35 and 86 respectively in China."

However, this is about to change dramatically. According to a research by Goldman Sachs, around 65 % of Indians will reside in urban areas by 2050, which will lead to a dramatic growth in existing cities as well as to the emergence of hundreds of new towns. By 2050, 129 cities in India will count between one and five million people. Europe, in comparison, has merely 34 such cities. This profound change is already visible. In the second quarter of 2012, Bangalore outpaced bigger property markets like Mumbai, Delhi and Chennai with a 140 % annual growth. Urbanization is affecting more and more of India's growth centers. And it is starting to happen in the hinterland as well. A long-lasting growth story has been ignited. Iyes Carcelle, who was CEO of Louis Vuitton at that time, said: "It is important to be a leader of this market and I took that decision 20 years ago. India will be a key market in the next 3–5 years, the number of malls will increase" (Times of India 2012).

Since it started economic reforms in 1991, India has made substantial progress. Most recently, the country has hit some roadblocks. In its "Global Competitiveness Report 2012–2013," the World Economic Forum (WEF) ranked India 59th, 10 places behind Brazil, and 30 positions below China (29th). India has lost 10 ranks since it reached its peak in this prominent ranking in 2009. Responsible for the relative erosion of its international competitive position is "its disappointing performance in areas considered being the basic factors underpinning competitiveness," writes the WEF. Ranked 84th on the global rankings, India's supply of transport, IT and energy infrastructure is not sufficient to support sustainable growth rates of up to 8 or 10 %. India even ranks lower in the health and basic education pillar (101st). Despite improvements across the board, the business community remains highly discontented with the lack of reforms the government is able to push through. India also leaves a large part of its gender potential idle. Many women remain out of the professional loop. Fewer Indian women are literate and represented in the workforce than in the other BRICs nations.

According to the World Economic Forum, "India has reached a critical inflection point. Twenty years after the liberalization of the Indian economy, which unleashed an unparalleled period of sustained high growth, new challenges have emerged in the form of rising inflation, a falling growth rate, delays in much-needed reforms and waning investor confidence."

In this respect, the landslide victory of Prime Minister Narendra Modi's Bharatiya Janata Party (BJP) in the May 2014 national election may well mark a major turning point. With a 31 % share of the votes, the BJP won 282 seats in the lower house of the parliament. The BJP is the first single party since 1984 to gain an absolute majority in the House. This is a very solid mandate for at least the next 5 years. It is more than likely that Narendra Modi, who is perceived to be a business-friendly and assertive economic reformer, will even have a decade or more to unleash another round of reforms. For local as well as international investors, this offers stable and reliable perspectives. During his 12 years as chief minister in Gujarat, Modi focused on growth and development with great success. He attracted much investment, modernized the agricultural sector and achieved significant improvements with many simple but effective measures like better irrigation. He comes into office at a time when evidence is mounting that India's economy is bottoming out after years of disappointing slow growth.

The hopes are high in the business community that Narendra Modi not only has the mandate but also the agenda and agility to launch another round of major reforms. India suffers from high inflation, budget deficits, a large logjam in stalled investment projects—especially in the energy and infrastructure sectors—as well as complicated land acquisition laws, wasteful subsidies and a debt-saddled banking system. In the latest World Bank's Ease of Doing Business survey (2014), India slipped three ranks to No. 134 among 185 nations. Modi wants to establish a system with "maximum governance and minimum government." There are signs of progress: The country's GDP is predicted to rise to 7.5 % this year, after hovering around 5 % in the previous 2 years. As one of his main programs, Modi has launched the ambitious campaign "Make in India" at the 2015 Hannover Fair to encourage global firms to manufacture their products in India (see Figs. 5.1 and 5.2).

Fig. 5.1 Indian Prime Minister Narendra Modi together with German Chancellor Angela Merkel and the CEO of ABB, Ulrich Spiesshofer, during a demonstration of intelligent ABB robot "Yumi" at the 2015 Hannover Fair. *Source*: ABB (2015)

Fig. 5.2 Example for the 2015 "Make in India" campaign. India is advertising in key industrialized nations in order to attract more investment in sectors that are key to India's development. *Source*: Schaffmeister (2015)

The country has already left a huge footprint in the global brand universe. According to Glyn Atwal, an Associate Professor at the Burgundy School of Business in France, "India's influence on the global stage has never been so strong." Atwal refers to India as a source of inspiration that is increasingly impacting international luxury brands. Bollywood actress and model Deepika Padukone is an ambassador for the Swiss watch brand Tissot in a successful global advertising campaign. Meanwhile, distinctive scents of India are inspiring big-name Western fragrances. Christian Dior Escale a Pondichéry uses jasmine, sandalwood and even black tea accords in order to create an exotic experience. Coffee connoisseurs are familiar with yet another example of India's rising global prominence. Chai tea variations at Starbucks have won a mainstream following by blending spices like ginger, cardamom, star anise, cloves and cinnamon. In addition, yoga and Ayurveda have won hundreds of thousands of fans across the globe.

5.2 Phases of Economic Development

When former Prime Minister Manmohan Singh's cabinet decided on a series of new reforms in the autumn of 2012, foreign direct investment (FDI) in multi-brand retail and a cut in diesel subsidies were the key elements. But the government lost its biggest coalition ally over the measures. On top of that, activists and shopkeepers across the country were up in arms. Immediately, the coalition-based government came under immense pressure from one of its largest political constituencies. In India, there are an estimated 50 million kirana stores, according to the Confederation of All India Traders. An additional 200 million people are dependent on the kirana for their livelihoods. But the government had to go ahead and launch new reforms anyway, as the economic pressure had become too intense.

The Congress Party that led the government until the election in May 2014 was reeling under the impact of “Coalgate,” a scandal which was unearthed by the national auditor. The Comptroller and Auditor General had revealed that the government gave coal mining permits to private players, costing the tax payers $33 billion dollars. The opposition demanded the Prime Minister’s resignation. The economy was losing steam. Foreign direct investment had just fallen to the lowest level in 2 years. And ratings agency Standard & Poor’s threatened India with a downgrade to junk status within the next 2 years. The prime minister had to act. He explained his new reform measures in rather dramatic words: “We have to bite the bullet. If we have to go down, let us go down fighting.” Next to opening up organized multi-brand retail, Singh’s government also raised the limit on foreign ownership of local insurance companies from 26 % to 49 %. And it permitted overseas investors to own up to 49 % in domestic pension funds. The FDI cap in aviation was raised to 49 %. In the media industry it rose to 74 %.

Two decades earlier, the same Manmohan Singh, at this time India’s finance minister, became the main architect of the most wide-ranging reforms since independence in 1947, the year when the British “Raj” (in Hindi “to rule” or “kingdom”) ended. In 1991, it was a balance-of-payments crisis that forced Manmohan Singh’s hands. “No power on earth,” he said back then, “can stop an idea whose time has come.” India’s socialist economy was growing at a derisory “Hindu rate of growth” below 3 % at that time, while Asia’s tiger economies stormed ahead at twice that speed. It was about time to draw lessons from the “East Asian Miracle.” Moreover, the Soviet Union had just collapsed, making it clear that more Socialism was not the answer. And China, in its 13th year of ambitious reforms, had already more than doubled its economic output. The People’s Republic was already well ahead of India. India was the lone laggard in the Asian sphere.

The country was still a backwater. After its independence, India chose a socialist development pattern, emphasizing self-sufficiency and a state-run economy. Its governments were inward-looking, skeptical of free markets and it stood aloof from international trade. For almost half a century, Mahatma Gandhi, the leader of the independence movement, Jawaharlal Nehru, India’s first prime minister, and his daughter Indira Gandhi, had ruled the most state-dominated and micromanaged democracy in the world. Until 1991, if bicycle manufacturers wanted to use a different kind of tires, they could only do so with a government permit. As a consequence, growth was anemic; poverty was hardly reduced, if at all. Indian companies were strangled by the “license raj,” “a surreal mix of Soviet stupidity, British pedantry and Indian improvisation,” as the Economist once described this system (Economist 2012).

India started to lower import tariffs. Regulations on manufacturing were relaxed. Several state-owned enterprises were partly privatized. Regulations were first relaxed in sectors like automotive, infrastructure and finance. The measures were far-reaching and covered five main areas: The dominance of the public sector in the industrial activity, discretionary controls on industrial investment and capacity expansion, trade and exchange controls, limited access for foreign investment as well as public ownership and regulation of the financial sector. A large part of the central government's controls were dismantled in order to create more competition and increase efficiency. Except for a few hazardous and environmentally sensitive industries, the license system was abolished. The long list of 18 industrial sectors reserved for the public sector—among them steel, machinery, telecom and mining—was shortened to just three. Import licensing was abolished soon after the start of the reforms for capital goods and intermediates. India switched to a flexible exchange rate regime. Financial sector reforms were high on the agenda from the beginning. The government understood that reforms in this sector were integral to increase efficiency and resource allocation in the economy. Interest rates and reserve requirements were only one part of the liberalization process. India's relatively strong financial system today is a direct result of these reform priorities.

The reforms quickly unlocked India's massive growth potential. Between 1994 and 1997, the country's average annual GDP growth rose to 7.5 %, from 3.5 % in the four decades to 1980. Between 2005 and 2008 India witnessed another growth acceleration, to an impressive annual rate of 9.5 %. The poverty rate was reduced from more than 45 % in 1994 to 21.9 % in 2012. The savings rate shot up from 21.5 % of GDP at the beginning of the reforms to 34 %, enabling a massive jump in investments to 37 % of GDP in 2011. And even though India's per capita income is still the lowest amongst the BRICs, it has taken the country fewer and fewer years to double its income level. It took India 40 years after 1950, 15 years after 1991 and it will take around 10 years to double it again by 2018 (Mohanty 2012).

Liberalization has facilitated the rise of a vast array of successful firms, mostly in the software, pharmaceutical, telecom and steel industries. India, in the process, has turned into an export power in brain-intensive services and products. Its companies have made it a virtue to circumvent all kinds of obstacles through clever innovations. This is how the Indian expression "jugaad" has crept into the management literature. The source of the word stems from India's massive agricultural sector. Farmers who couldn't afford a functioning vehicle (called jugaad) just strapped an irrigation pump to a steel frame with four wheels. Nowadays, the term is widely used in context with frugal innovation. India is still very dependent on its agricultural sector. At the end of the last decade, according to World Bank data, the share of agriculture in GDP had almost halved to 17.5 % since the start of the reforms, but employment has only marginally declined since then. Volatile monsoon seasons—and a high share of disposable income that is needed to buy food—can turn inflation into a major problem. When interest rates need to rise, as a consequence, businesses and consumption suffer. It is interesting that a concept similar to "jugaad" is very popular in China, where it is known as "hou men," the backdoor solution. People and corporations have learned to deal with difficult circumstances in extremely flexible ways. This flexible and pragmatic management mantra and the more intimate understanding of local consumers gives many Indian companies an edge in industries that depend on a thorough understanding of local consumer preferences, like food and medicine.

Since the start of serious reforms, the “Elephant” turned itself into a “Tiger,” as the Cato Institute concluded in a paper covering “20 Years of Economic Reform in India” (Aiyar 2011). Thanks to these reforms, India has emerged as a new power in brain-intensive industries like computer software, R&D, medical tourism and—most recently—in auto exports.

Overall, the reforms were so successful that governments after 1991 did not dare to reverse them. Academics and India watchers like senior fellow Arvind Subramanian at the Peterson Institute for International Economics even expect the country to catch up with China in GDP terms by 2045. Mohan Guruswamy, the Chairman and founder of the Centre for Policy Alternatives, who in the late 1990s was a top economic advisor to India’s government, expects India to become the leading economy in Asia by 2035. In his book “Chasing the Dragon,” he explains why: India has a younger population, it is more open to the world, speaks English and profits from ongoing urbanization with a rapidly growing middle class. International companies like Wal-Mart have reacted favorably to the latest set of reform promises. The leading global retailer wants to open several stores in India within years.

Insiders like Jagannadham Thunuguntla, the Delhi-based chief strategist at SMC Global Securities, are expecting global retailers to invest at least $500 million within 5 years in order to expand their operations across the country. They are attracted by reports that already one-fifth of India’s urban shoppers are regular visitors to modern supermarkets (Economic Times 2012b). Within weeks after the government announced the opening of single-brand retailing, 6 global players from the trade applied for permission to own 51 % of their operations in the country. Ikea said it wanted to invest $1.95 billion in 2 stages. Ford Motors wants to make India a major car and engine hub with its second greenfield facility in the state of Gujarat. Luxury brands like Louis Vuitton and Armani are circling additional locations such as Chennai, which in 2010 entered the Forbes list of the ten fastest growing cities in the world. Retail, meanwhile, is one of many examples that reveal how India’s reforms remain half-baked (Asian Development Bank 2001).

No government has so far dared to liberalize the country’s very restrictive labor laws. They are one of the main reasons India has failed to make its mark in labor-intensive industries. This is one of the key reasons why India was not able to follow the other Asian Tigers in pursuing an export-led growth model, based on labor-intensive industries. Until today, it has been almost impossible to lay off workers in any company with over 100 employees. Reforms also remain incomplete in terms of privatization. The financial sector is an example. Several private and foreign players have entered the finance industry. But around 70 % of banking is still controlled by the government. Another case in point is the power sector. During peak times of demand the country needs 10 % more electricity than it can currently provide. India, according to some estimates, needs to double its electricity production within the next 10 years in order to sustain GDP growth rates of around 6–8 %. So the utilities sector has been opened for private investment. Private capital has started to pour into the construction of power plants, as a result. But most of the electricity supply chain remains in the hands of the state. The production of coal, the main energy source for power plants, is dominated by state-owned companies. The same is true for the transmission of electricity which, for political reasons, remains heavily subsidized. The result is an inefficient sector that produces losses and is prone to blackouts. The most spectacular blackout in human history plunged 700 million Indians in 20 of the country's 28 states into darkness in July 2012.

A lot of work remains to be done in services like retail, banking and insurance. Land reform remains a major unfinished task. Three years after it was driven out of West Bengal, where it wanted to produce its Nano, the Tata Group once again became embroiled in an argument over land in Andhra Pradesh in 2011. In February of that year, Tata organized a groundbreaking ceremony featuring the state's chief minister after the Andhra Pradesh Industrial Infrastructure Corporation (APIIC) had allocated land for the company's new aerospace factory. But 6 months later, Tata learned from the local Hyderabad Metropolitan Authority that the land allotment had been rejected because it was reserved for residential development by a municipal authority. Neither agency had bothered to inform the other. Disputes like this one are nothing new to investors, a century after India's land acquisition law was drawn up by British colonial rulers. A revamp of the law is on its way. But it may drive up prices significantly. And its delay is holding up large projects by Posco, ArcelorMittal and Tata Steel. This is why Delhi has urged the Indian states to set up land banks for new manufacturing zones.

Another case in point is India's insurance sector. It was full of promise when it was thrown open to competition back in 2000. But the life insurance industry has lost a combined $4 billion in the past decade. Constant regulatory change, uncertainty and a lack of competition have brought the industry to its knees. Foreign funds are needed and were proposed in late 2012. But parliamentary approval is difficult, because there is strong populist opposition. The former state monopoly Life Insurance Corp. of India has a 70 % market share and employs around 1.3 million agents, as many as all private sector firms combined.

Many studies—like the Cato Institute's paper—are listing infrastructure next to corruption and bureaucracy as one of the top three sectors, where further reforms are urgently needed. Because of bad and missing roads, up to 40 % of India's agricultural products do not even reach the retail level. The Cato paper also notes that "India needs a huge improvement in education and vocational training if it is to fully harness its demographic dividend." The paper also assigns poor grades to law, order and justice: "The police and courts have a terrible record and are seen as founts of corruption and injustice. Cases drag on for decades. India's court case backlog guarantees that many legal controversies will never be settled." In its May 2011 "India Forum," The German Marshall Fund of the United States (The German Marshall Fund of the United States 2011) determined that "other countries have liberalized much faster than India in the interim period." The International

Monetary Fund recently called for a reinvigoration of India's reform efforts (IMF Survey Magazine 2012).

One of the reasons reforms are not moving faster is the crushing fiscal burden of the public sector. Around 40 % of the 100 largest listed companies in India are state-owned enterprises. In finance, energy and natural resources state enterprises control an even larger share of their respective industries. More than that: Massive subsidies are starting to suffocate the budget. The direct cost of food, energy and other subsidies amounts to nearly 10 % of GDP. And indirect costs, like corruption, are adding to the burden.

The good news is that, even without external pressure from the international investment communities and organizations like the IMF, India has strong motivations to deepen its reforms. Since 1991, the liberalization has already created immense expectations. There is a huge young generation that is impatient and wants to enjoy the fruits of progress. This is why many observers are very confident about the long-term growth perspectives of the country. In his Oxford University Press paper "Is South Asia Ready for the Big Leap?" Ejaz Ghani warns that India's growth should not be taken for granted. But he sees a "strong empirical justification in favor of the optimistic outlook." According to Ghani, growth will be propelled higher "by young demographics, improved governance, a rising middle class and the next wave of globalization" (World Bank 2011). Ghani expects another 20 million Indians to join the labor force within the next two decades. And he describes the new middle class as "well educated, enterprising, innovative, and more demanding of better services, products and governance." Roberto Zagha, the World Bank's country director in India, closely watched the country usher in reforms in the 1990s and is similarly positive: "The Planning Commission and the prime minister have said several times that India can grow by 10 %. I think this is feasible. India has a savings rate in excess of 33 %, and a high investment rate. So, with the right policies, it could grow significantly" (Economic Times 2012c). There is one more important aspect that needs to be kept in mind. In contrast to China, successive governments in India have not managed to "sell the reform story in a way that is intelligible to the masses," as Sadanand Dhume, a resident fellow at the American Enterprise Institute rightly observes. According to Dhume, India's political elite have not treated liberalization as something to celebrate. "Rather, it was something to be done by stealth to keep international creditors happy." The only exception to this pattern was the "India Shining" campaign in 2004. The Bharatiya Janata Party-led coalition that drove the campaign was promptly thrown out of office. But after the May 2014 election, it is back in business.

5.3 Current Economic Snapshots

When Starbucks opened its first branch in India in October 2012, security guards were called in to organize an orderly line-up. Excited customers from the brand-conscious middle class were waiting for up to an hour in front of the old colonial building in downtown Mumbai. India has its own cherished coffee brands. But the new foreign brand entry received massive attention. India is the home of Chai, which is a sugary and milky tea, mostly sold in tumblers by street hawkers. But during the last 5 years, India's coffee sector has expanded from $40 million to $230 million thanks to rising disposable incomes. In Mumbai, Starbucks pairs its offers of different coffee flavors with Indian cottage cheese wraps or blueberry muffins. The fact that the world's largest coffee-shop chain is entering India is even more proof that the country has arrived at a critical juncture. According to Tata Consultancy Services, India is already the fourth-largest economy worldwide in terms of purchasing power parity (Tata Consultancy Services 2012).

India's GDP reached $1.87 trillion in 2013 and the country has grown at an impressive annual 7.45 % rate in the decade to 2011. According to The Economic Times, the government wants to increase the share of manufacturing to at least 25 % of GDP by 2020 and is considering three more mega industrial zones, one in the state of Andhra Pradesh and two in Karnataka. The manufacturing share had reached 15.8 % in 2008, according to the World Bank. This rate had hardly changed since the early 1980s. The World Bank projects India to become the No. 3 economy in the world by 2020. According to Tata, India can almost triple its GDP to $4.5 trillion by 2020. While doing so, it would overtake developed economies like Germany and France. The services sector contributes slightly more than half to India's GDP, which makes it even more attractive as an emerging consumer market. Services now account for 55.6 % of GDP, compared to 26.3 % for the industrial sector and 18.1 for agriculture. The number of call centers in India has sharply declined over the past 3 years due to rising competition from countries like the Philippines and Vietnam. For observers, this is a reflection of the business process outsourcing sector moving up the value chain into software development, medical record services and accountancy.

India is already strong in industries like traditional textiles, agriculture, metals and mining, machinery, railways, ships, automobiles (especially small cars) and petro-chemicals. It is developing fast in pharmaceuticals, IT and telecommunications. There is also large potential for the food processing industries. India is already the second largest market for elevators. And it is aspiring to become a key global market for electric cars. The telecoms industry is highly regarded internationally for its innovative way of slashing prices and providing cell phones to even the poorest customers. With 7 of the world's 15 information technology outsourcing companies based in India, the country is viewed as the second-most favorable outsourcing destination after the United States. Its telecoms industry is now the fastest growing sector, adding 227 million new subscribers from 2010 to 2011. Another major growth segment will be infrastructure. The government has allocated a 5 year budget of $90 billion for road construction. At roughly 3.3 million kilometers, the national road network is one of the largest in the world, but only 6 % of the roads are deemed to be in an acceptable condition. Many are not asphalted, or have only one lane. And 40 % of Indian villages are not connected to the road grid. One of the key plans is to transform 14,000 km of two lane roads into four lane roads. Passenger and cargo traffic are expected to grow at double digit rates for the foreseeable future. It is certain that massive infrastructure investments will support continued growth.

Despite short-term challenges, the country is profiting from strong fundamentals. Tata cites three factors for its optimistic country outlook: "India's growth story continues to be fundamentally strong given the demographic advantage, low impact of global economic trends and significant growth potential across multiple sectors." This promising outlook has already lured several global brands, with an increasing number of them ranking India as one of their critical markets. At Nokia, sales in India contribute 11 % to its worldwide business as the brand still commanded a stunning market share in India of about 40 % in 2012 due to a very smart strategy of product adjustment to local consumer needs. At Standard Chartered, India contributes 20 % to the global turnover. For Suzuki, the rate is 23 %. The German Chemical companies LANXESS and BASF, for example, see India as a key to export growth in the region. The country has carved out an interesting niche for itself as an exporter of value-added leather products and features growth in the mobility sector. That opens up big opportunities for diverse kinds of chemicals, additives, intermediates and polymers.

There are several important factors driving India's retail business. The average income has breached the threshold level of $1000 per year. Beyond this, several emerging markets have experienced a massive spurt in consumption. India not only has a very young population with high aspirations to fuel this development but is also seeing new consumption hubs emerge in smaller cities. By 2020, according to Tata, the country will have around 200 cities with a population of more than 0.5 million people. It seems that consumerism is growing everywhere. Two decades from now, the urban population is expected to double to almost 600 million. Meanwhile, luxury retailers like Louis Vuitton and Armani are very excited to venture beyond the big metropolises into the more traditional, locally oriented markets like Surat, Chennai and Kolkata, which were so far only regarded as small pockets of affluence. Now they are turning into hot new destinations for premium products.

Tata is forecasting that India's retail market will touch $1.3 trillion by 2020. The share of modern retail—vs. the unorganized segment which is still dominating 95 % of the business—is expected to more than double to around 12 % during that period. This means huge opportunities for new retail formats. Two-thirds of GDP are currently powered by domestic consumption, which puts India in a much better position than most of its emerging market peers to weather challenging times for the global economy. With such a high share of private consumption, India "is closer to developed economies such as Japan and the United States than are China and other fast-growing emerging markets in Asia," finds Diana Farrell in a Report for the McKinsey Global Institute.

India has already reached several critical milestones that underscore its growing global weight. According to research firm Gartner, it will become the world's fastest growing enterprise software market by 2016. It will soon be the second-largest steel producer. In 2012, it has toppled Thailand as the world's largest rice exporter. And it just surpassed Australia as the top exporter of beef. India's progress in trade and commerce has been astonishing. In 2011, its exports growth reached 16 %, while the global trade expansion slowed down to 5 %. India's share of global trade was 1.68 % in 2008. According to the World Trade Organization, the country became the 10th-largest importer and the 19th-largest exporter in 2011. In its November 2012 "Global Connections Report," HSBC Bank analysts forecasted a steady acceleration for global trade growth from 2014 until the end of the decade, with the strongest contribution coming from India, Vietnam and China. HSBC is expecting double-digit annual growth from 2013 to 2020 for India.

5.4 What Indians See as Strengths of Their Country

People in India are fairly optimistic about their growth prospects, even with a temporary decline in growth rates due to the slowing world economy. "Despite this decline, Indians remain more positive about current economic conditions than populations in most of the 17 countries surveyed in both 2011 and 2012", according to the latest "Global Attitudes Project" by the Pew Research Center. At first sight, this seems to be surprising. There is widespread dissatisfaction with corruption, bureaucracy and an ailing infrastructure. Nevertheless, the country has several strengths on which it can confidently build its future.

India is home to the largest English speaking population in the world. It is the biggest working democracy, after 66 years of independence, and its demography offers a massive advantage compared to other large emerging markets. According to forecasts by the United Nations, India will be the most populous country on earth by 2030. By the end of the decade, India will have the youngest population in the world. The median age will be 28 years, compared to 37 in China and 45 in Western Europe. Thanks to the one-child policy, China's working age population will start to shrink halfway through the current decade. But in India, around 20 million more people will join the labor force until 2020. This promises another 136 million workers for the domestic economy. Many of them will join the middle class thanks to better education, high aspirations and millions of new jobs in the expanding service sector and the acceleration in manufacturing. Moreover, India has already become the seventh-largest car producer in the world.

The rise in expectations is justified. In a paper for the Harvard School of Public Health, authors David Bloom, David Canning and Larry Rosenberg analyzed the link between "Demographic Change and Economic Growth." Their main finding is unambiguous: "The correspondence between increasing GDP per capita and the increasing ratio of working-age to non-working-age people is striking" (Bloom et al. 2011). In the case of India they note that "South Asia is projected to add an average of 18 million people to its working-age population every year for the next two decades, and the result will be a very high ratio of working-age to non-working-age individuals, which will peak in 2040. This ratio augurs well for future economic growth." Another major growth driver might be improved labor force participation for women once families become smaller. Goldman Sachs analysts predict that the size of India's labor force would grow by 110 million by 2020 if the participation rate for women increases to 38 %. According to the Asian Research Centre, this rate has stayed constant at a low 25 % for the past 25 years.

India has also developed a comparatively strong banking and finance industry. It ranks 21st in the latest Global Competitiveness Report by the World Economic Forum. This can hardly be underestimated and allows India to channel financial resources more effectively to its business sector, the sophistication of which is ranked 40th on the list, with an innovative strength that ranks 41st overall. Banking is a $1.17 trillion business in India. Public banks account for 70 % of the assets. Public banks like the State Bank of India—and private competitors like HDFC Bank—have grown their deposits at compounded annual growth rates of 20–30 % since 2007.

The Boston Consulting Group estimates that India's GDP growth will transform the country's banking industry into the third largest worldwide by 2025. The main drivers for further growth will be an increasing willingness to take up loans, particularly among young customers, and the rapid spread of mobile banking, the second largest channel for banking after automated teller machines. Furthermore, there is a huge untapped market, since 41 % of the adult population doesn't have a bank account yet. The next stage for Indian banking will be a relaxation in the norms for foreign direct investment. The era of "4-6-4" as it is called in the industry—borrow at 4 %, lend at 6 %, go home at 4—is definitely over.

One of the country's major strengths in its self-assessment is the huge "wealth diaspora" of non-resident Indians (NRIs). Government estimates put their number at 25 million. More than an additional 300,000 migrate every year. That translates into an annual 1 % growth of the overseas pool of Indians. Part of this significant group is 150,000 NRI millionaires worldwide who are representing wealth of more than $500 billion. Remittances from the diaspora amounted to $75 billion in 2012, a 14 % increase on the year before. The NRI's repatriation of money to India is a great support for India's current account deficit. But the NRIs are much more than a source for remittances. They are an important contributor to IT investments and the modernization of India, a massive pool of talents and a driver for creativity. Most of the NRIs reside in the Gulf countries, in Europe and in North America.

5.5 The Rise of Indian Brands

Bharata Ganarajya (the official Sanskrit name of the Republic of India) is China's toughest competitor in terms of multinational companies dominating international markets. Infosys, the Bangalore-based IT consulting firm, has become a global giant. Suzlon has made it to the top as one of the world's largest suppliers of wind turbines. Reliance is now the leading polyester yarn and fiber producer on the planet. It ranks among the top ten suppliers of petrochemical products. ArcelorMittal snatched the crown to become the world's largest steel producer. And Tata, with more than 100 operating units ranging from communications to engineering and energy, made major headlines when it acquired Anglo-Dutch steelmaker Corus, Jaguar and Land Rover. Tata Steel has also become Europe's second-largest steel producer. In 2012, Reliance Industries toppled state-owned oil company ONGC to become India's most valued firm. In the same year, six Indian brands including Tata, State Bank of India, Reliance and Infosys, were named amongst the world's 500 best brands by global consultancy "Brand Finance." Tata was the only one of them making it to the top 50. It climbed six ranks in this prominent list to make it all the way up to 44. Its brand value has risen to more than $16 billion.

Still, the phenomenal rise of Indian brands and their growing presence in world markets has evaded the attention of many "bizfluentials." These are people who follow more than one source of financial media daily. This is the result of the latest "PSB 50" ranking of Indian MNCs by Penn Schoen Berland, a global communication strategy firm (PSB). It quotes PSB Managing Director and CEO Ashwani Singla saying: "India is still searching for its GE, its HSBC, and its Microsoft" (Penn Schoen Berland 2011). According to Singla, India's leading brands have now reached a crucial stage in their development: "The moment is now. India's business leaders have built companies with top-flight market performance. The next step is telling this story—the story of Indian entrepreneurialism—to global audiences in order to build strong global brands."

India has aspiring entrepreneurs aplenty. Seven Indian brands have already made it to the list of the 20 best-selling spirits in the world, among them Officer's Choice (whisky), Bagpiper (whisky) and McDowell's No. 1 Celebration (rum). Another example is Flipkart, one of the country's hottest internet businesses and, to some observers, potentially India's future Amazon. But there are also many home-grown brands in the country that have been there for decades. They are traditional firms like Gramophone Co. of India which set up operations in Calcutta in 1901. Air India, the former Tata Airlines, became one of the country's first global brands in the 1940s. Another one is Mysore Sandal Soap, established by the maharaja of Mysore in Bangalore in 1916, that has been a staple in Indian bathrooms for decades and continues to have a strong franchise. Car buyers in India are well aware of several local brands that have been there as long as they can remember. Among them is the Hindustan Ambassador, which has been produced in the country since 1957. It got a major makeover in 1992 with a 1.8 l Isuzu engine and is still in production as the Ambassador Classic.

Nowadays, India's most famous home-grown passenger vehicle, though, seems to be the Tata Nano, the much-hyped "wonder-car" that was launched in 2009 by Tata Motors. It is widely cheered as a symbol of frugal innovation and considered as one of the landmark characteristics of Indian industrial strengths. There are many more examples, like Bata India, the largest retailer and leading manufacturer of footwear in the country with 1200 stores across 400 cities, or Indian means wear brands like Siyaram Silk Mills, Madura Garments or Zodiac Clothing. Many of these brands have been in the business for decades and they have their finger on the pulse of the domestic market. This multitude of local champions with their long-standing tradition has managed to defend their dominance in the domestic market against a rising tide of international competitors. This finding was confirmed by TLG's June 2011 "Index of Thought Leaders," a report on India's most powerful corporate brands. One of the key findings in the index: "Western brands need to watch out, self-confident Indians place seven local champions in their Top 10" (TLG Communications 2011).

More proof comes from Fitch, one of the world's best-known and most influential design agencies, which launched a studio in Mumbai in 2007. Up to today, 65 % of the business in the retail design agency comes from Indian companies that are increasingly recognizing the importance of being continuously relevant to local consumers.

One distinct characteristic of Indian industries is the prevalence of family-owned companies and conglomerates. Textile clans like the Piramals and Mafatlals in Mumbai are only one example among many. The Birlas (metals, textiles, cement, and mobile phones), Ruias (steel, ports, shipping, and energy), Mahindras (tractors, SUVs, finance, hotels) and Ambanis (Reliance Group) are sometimes referred to as the "Bollygarchs." These family firms often stretch extremely wide product portfolios and they remain the backbone of India's private sector. Some of them, like the Birlas, stretch back over several generations. There are also second-generation companies that were built by pioneers and represent India's version of the rags-to-riches story. One of them is Mukesh Ambani's (Reliance) father, who became a legend by climbing from petrol-pump attendant to billionaire. And there are first-generation clan enterprises which took off in sunrise industries like software and computing. Bharti Airtel is one of them. Finally, there are firms that mix offshore and domestic activities. They are built by families who partly run the business from abroad. Mittal Steel, based in Europe, is an example.

There are several interpretations as to why family businesses are such an important feature of the Indian economy. One theory pinpoints weak institutions as a driver of this phenomenon. In an environment where courts need years to make decisions, contracts are often hard to enforce. Also, because the infrastructure is so poor, one needs to do everything oneself as an entrepreneur. Capital controls are another reason. If it is difficult to transfer money abroad, it is better to invest it into a new business rather than deposit it in the bank, where it earns less than inflation. Some of these conglomerates are remnants from the socialist era from 1947 to 1991, when the state imposed massive restrictions. Companies back then tended to expand in any direction that looked attractive.

For international brands that want to make a splash in the Indian market, the TLG report delivers an important message: "Local knowledge makes the difference. Western firms that succeed are those that adapt their models to local conditions, or ones that form joint ventures with locals in the driving seat." There are two such examples in the thought leaders list, Maruti-Suzuki and Hindustan-Unilever.

Currently, there is still a low penetration of foreign luxury brands in the Indian market. Only 30 % of the world's top 500 luxury brands were present in India as of June 2011, compared to 70 % in China. One reason may be the fact that income levels in India are still way behind China and the other BRIC countries. Moreover, India accounts for less than 1 % of the global luxury market, vs. China's 10 %. There are still very few luxury shopping meccas, such as New York's Fifth Avenue, or London's Bond Street, in Indian cities. So far, in India, luxury brands are mainly sold in five star hotels or in a small number of exclusive malls such as the DLF Emporio in New Delhi.

One important reason for a relative lack of international brands in India is a simple fact. The need to adapt to local tastes, as well as co-operation with local players, is not well understood by many foreign brands as a key for success. Adapting to local tastes and consumer behaviors is difficult due to the immense diversity of the country and thanks to its rapid development and huge income variability, which leads to increasingly fragmented markets. For the time being, global players outside of luxury and electronics markets need to adjust their brand positioning and develop affordable goods or versions of their major brands in order to reach significant market acceptance. Very often, this means a reduction in prices as well as a reduction in available product features. Cutting the costs accordingly—and finding the right positioning—can sometimes only be achieved with a local partner.

The global luxury industry has finally arrived in India and so you see many male Bollywood actors like Saif Ali Khan or Shah Rukh Khan walking around proudly with Louis Vuitton bags. For foreign luxury brands, it is not easy to replicate the unique shopping experience that customers have in mature markets. Therefore, many Indians still prefer to buy expensive leather bags, designer wear and watches abroad, even if the same products are increasingly available at home. But it can be done. The existing market for luxury apparel and accessories is dominated by a handful of business houses like Genesis Luxury Fashion, TSG International Marketing or Reliance Industries through its retail arm Reliance Brands. These business gatekeepers are enjoying a firm hold over a market that grows at 30 % per year. Genesis started with one Canali store in 2007 in Hyderabad. Now it runs 36 stores in five major cities with a portfolio that reaches from Burberry to Bottega Veneta and Jimmy Choo. Roasie Ahluwalia, the General Manager for marketing at Genesis, explains that international luxury brands have started to bring down the entry point for first-time buyers by starting discount sales around major festivities or by conducting end of season sales. For obvious reasons, many Western brands still hesitate to generally cut down their prices.

However, the story is completely different when it comes to consumer brands. Two thirds of the top 100 brands in India are fast moving consumer goods (FMCG). The Indian FMCG business, according to industry reports, is a market of $30 billion and will grow at compounded annual rates of nearly 11 % to $87 billion by 2020. Roughly 80 % of the FMCG goods are owned by multinational companies. Many of them are ignoring Theodore Levitt's classic globalization of markets theory, which predicted a worldwide convergence of consumer tastes. Levitt's prediction was that consumers throughout the world would increasingly be motivated by the same desires for modernity, quality and value so that the world would become one large market where regional and national differences could be ignored.

One company that took advice from Levitt early on was P&G, which entered India back in 1984 through its subsidiary Richardson Vicks. It expected Indian consumers to upgrade to premium Western products, but faced many problems trying to sell products like Camy, Tampax or Ariel that were successful elsewhere. The company eventually had to focus on upper-middle class urban consumers who are more likely to afford their premium-priced products. When Kellog's entered India in 1990, it was convinced that middle-class Indians would favor convenience cereal products, happily paying the premium. They were not aware that time was not viewed as essential because labor is cheap in India and that the targeted upper-middle class in many cases has maids at home. They also did not pay enough attention to the fact that Indian breakfast behavior was much different. Three years after entering the market, Kellog's still had revenues of just $20 million. In a radical departure of its strategy, Kellog's launched a line of biscuits, which is one of the largest convenience food categories in India.

Nowadays, a growing number of international brands have re-oriented their strategies in India, or started with an adapted product and positioning right away. Levi's launched a very affordable signature range to target value conscious buyers. Many shampoos became successful because they were packaged in sachets instead of the more expensive bottles. The small pack sizes have enabled producers to reach consumer groups who were initially not considered to be target customers. McDonald's has also adjusted to local market needs, for example, by respecting the beef-eating taboo with menus offering vegetarian as well as chicken options. And stepping further up, the world's largest restaurant chain has now even started opening full-fledged vegetarian restaurants that stick to a vegetarian only menu. The latest restaurants opened next to well-known pilgrimage sites in Amritsar and Katra are featuring McVeggies (with a patty made of carrots, peas and potato) as well as McSpicy Paneers (the traditional Indian cheese). German car companies are also paying significant attention to different tastes and income levels in India. Mercedes, BMW and Audi recently launched compact cars and smaller SUVs for younger customers who do not yet have the funds to buy a luxury car. In many emerging markets, due to poor road conditions and the belief that the size of the car also reflects the status of the owner, SUVs usually sell very well. Automotive brands also try to create better entry points by relatively cheaper offerings. Daimler strengthened its India commitment with the India-focused truck brand Bharat Benz, combining Daimler's DNA and India's market know-how. The trucks are developed and built in India by specialist employees from India.

Another striking example of successful adaptations to the local market is mainstream cosmetic products. Some brands are creating make-up shades based on India's bright colors. Some skin and hair-care lines chose to capitalize on Ayurveda techniques. Paris-based Clarins has introduced a cosmetics line called Enchanted, which is inspired by Holi, the Hindu festival of colors. And Chanel's creative makeup director Peter Philips designed a gold nail shade called Diwali, named after the Indian festival of Lights. The race for catering to India-specific needs has begun.

A very telling example of how to enter India successfully with a Western brand is Nokia. Halfway through the last decade, Nokia commanded more than 50 % of the local mobile phone market. Industry observers are widely crediting Nokia with a good combination of focus on the mobile phone market, the establishment of a crucial distribution partnership, early investments in manufacturing and R&D, brand building and the development of innovative product features. Nokia entered the market shortly after the government opened the telecom market to private enterprises in 1994. Through its partnership with HCL (formerly Hindustan Computers) the Finnish company was able to be the sole product provider for some time in 50,000 of the roughly 95,000 outlets that sold mobile phones in India in 2007. With a wide range of models from $37 to $1125, it managed to simultaneously reach out to maturing markets in large cities where consumers want to buy more sophisticated handsets, and to rural India, which constitutes 70 % of the population and where affordability is an important issue. By straddling all segments, the company successfully created a ladder for its customers to climb up from the low end to the middle and high end. Nokia also focused on promoting platforms like music, where one model could replace another while the branding remained the same. Besides, the company crafted something unique that stood out from other products and improved the value proposition. Taking into account that a large number of the rural population does not yet have electricity—and power cuts are common—Nokia incorporated a flashlight into its first made-for-India phone, the 1100 model. Being manufactured in Chennai, it also featured an alarm clock and a radio.

5.6 Not to be Missed: India's Emerging Middle Class

In 2012, Coca-Cola announced plans to invest $5 billion in India by 2020. "We think there's potential here," explained Coca-Cola CEO Muhtar Kent. India is one of the last big frontiers of the Atlanta-based beverage giant. Coca-Cola had left India in the late 1970s, after refusing to partner with an Indian company and reveal its secret ingredients. It returned 2 years after India started its reform initiative in 1991.

Only weeks after Coca-Cola made its latest expansion for India known, Walt Disney received approval for its plan to invest another $180 million into its Indian operations. Since entering India, Disney has increased its workforce nearly sixfold to 1100. While Disney explained how it wanted to raise its profile in India, Amazon revealed the launch of a Kindle store to attract the country's increasingly literate population into the rapidly growing world of the e-reader. Apple is following with a launch of an iTunes platform for India. Only 2 months later, Mercedes-Benz said it planned to increase investments in India to more than $155 million. All these projects represent only a small part of the additional wave of investments that swept into India in the autumn of 2012 in the weeks preceding the government's announcement of its latest round of reforms.

Coincidence or not, it was during these days that the entertainment pages in India's newspapers and magazines reported on Rani Mukerji's new movie "Aiyyaa." Mukerji is a popular actress who is well known for her prominent roles in Hindi films. Aiyyaa is a film about a middle class family that is supposed to be a reflection of any regular middle class family in India. It features five main characters: A conservative and always concerned mother of two kids, a more modern oriented father who always keeps his cool, a naughty brother and a grandmother who lives in her very own world. Rani plays a spoiled daughter who is on the lookout for a nice guy because her family wants her to settle down.

The movie and the investment announcements have one common theme: India's middle class has become a force to be reckoned with, in terms of society, commerce and political influence. The current income pyramid has rather steep angles. At the apex of India's 1.2 billion population, there is a minority group of 1.2 million households that is affluent and tends to live in the top eight cities of the country. In the middle part of the pyramid is a rapidly growing middle class with up to 300 million people, according to varying estimates. There is no generally acknowledged definition of who belongs to the middle class, so the numbers and market research widely vary. The biggest section is at the base of the pyramid and comprises at least 700 million people. These are the ones who have not yet made it into the middle class. Many of them struggle to make ends meet, and many of them are poor. India is home to the largest concentration of people living below the World Bank's international poverty line of $1.25 per day. These people do not have the purchasing power to shop at Wal-Mart or Carrefour. Analysts at Credit Suisse have calculated that the total per capita assets of 95 % of India's population is less than $10,000.

But things are changing very quickly. According to the McKinsey Global Institute, the share of India's middle class in the population will rise from just 18 % in 2005 to 59 % in 2025. Right now, the country has just 3 % of the global middle class, while China accounts for more than 33 %. In order to get an impression of how many people will soon join India's middle class, some investment banks and think tanks define an "emerging middle class." That's the aspiring part in the lower center levels of the income pyramid who are sandwiched between the lowest income group and the middle class. India's National Council for Applied Economic Research (NCAER) estimates the middle class to be 160 million, larger than the populations of Germany and Japan, and sees it rising to 267 million by 2016. The drivers of this impressive growth are higher incomes, urbanization, a favorable demographic trend, trade and a prolonged information technology boom that is creating millions of highly educated and ambitious professionals. The services sector has put much more income in the hands of an expanding creative and professional class. The same applies to the agricultural sector, where rising prices for farm produce are increasing the income of a huge number of agro-traders.

The rise of India's middle class is a dream story for Indian and some global marketing managers. Between 2004 and 2008, the boom in mobile phones led to a sevenfold increase of subscribers. From 2005 to 2009, the number of credit cards quintupled. The middle class is on its way to become the biggest segment of India's overall population. It is only a matter of years, even with lower growth rates than late last decade. This development creates significant business opportunities. One of many is the emerging small car market. Several international players have already announced their plans to manufacture small cars in the country, and many feasibility and concept studies are underway. As a striking difference to the preferences of China's middle class, in India, three out of every four cars sold are small. According to Ernst & Young's "Auto-track—India's small dream car" study from June 2010, domestic sales in this vehicle segment have more than doubled during the second half of the last decade (Ernst & Young 2010). The middle class is clearly the driver of this industry. As stated by the NCAER, the middle class represents only 13.1 % of the population, but it owns 49 % of the total number of cars in the country, 53.2 % of the computers and almost 53 % of the air conditioners.

A good measure of the spread of development is the penetration of cosmetics and toiletries in India's households. Only 31 % receive running water for 24 h a day, and almost 60 % can turn on the tap for only 4 h a day. Nevertheless, 99.9 % of Indian families have reported some expenditure on tooth brushes, tooth paste, bathing soap, shampoo or hair oil, according to the Centre for Monitoring Indian Economy. With water being scarce for half the population, cosmetics and toiletries already come third in the list of expenses after food and energy. This means that even with serious challenges still in place, the product penetration of Indian markets can already quite impressive in many categories.

Rural markets are becoming an increasingly important driver for the rise of the middle class. First of all, rural regions are the source for continuing urbanization. The urban population represented 32 % of the total population in 2012. But that share grows by around 2.5 % per year. People who are migrating to the urban growth centers earn two to three times as much as they did back in the hinterland, adding significantly to the country's income. This driver will have a lot of thrust and endurance to feed India's markets and national growth in the years to come. According to the United Nations, India's urban population rose sixfold from 1950 through 2010. The urban population increased a staggering 305 million people during the last 60 years. Over the next three decades it will rise by another 397 million, making urbanization one of the megatrends that shape the face of the new India.

India's rural areas are not only feeding the boom centers with workers and talents, they are also creating their own wealth in an unknown number of newly affluent towns and cities. Business Week reported in its October 2010 issue about a dusty trading town called Aurangabad, which is a 6-h drive away from Pune. One day, the Mercedes-Benz dealership in Pune received a call from the Aurangabad chamber of commerce. It wanted to place a bulk order for 115 sedans. The sales clerk first thought it was a prank call or a joke. But when the deal was done, Mercedes-Benz sold 148 autos to Aurangabad customers in a single delivery. It was at that time the largest single order for the German car maker in Asia. Looking at Aurangabad, this is not astonishing at all. During the last 10 years, the town has doubled in population to nearly two million. Large Western companies like Siemens and SABMiller built plants in this location and created surging income. There are many Aurangabads in India. As a result, during the next 5 years there will be another 460 million people in India who will earn \$5,000–\$10,000 a year. According to the McKinsey Global Institute, these cities have the potential to generate 70 % of the country's new jobs and GDP over the next 20 years. If these forecasts prove to be correct, India will contribute one out of every four new members of the global middle class for the next two decades.

In its 2012 survey “Demand Spotting: The Rise of the Indian Small Town”, Nielsen stated that “Middle India” (towns with a population between 100,000 and one million) will lead the pack in value growth. “If we just look at 2011, we find that the even smaller towns (less than 100,000) have stepped up to lead overall value growth. This is evidence that the Indian growth momentum is percolating down to small-town urban India” (Nielsen 2012). The Nielsen study is one of several which show that smaller Indian towns have taken over from the metros to lead the national demand surge. “While Middle India leads the pack in same-store sales for the last 3-year period, smaller towns with a population of 100,000 and below have surged far ahead of the rest in 2011.”

There is more evidence for rural India taking over as the new driver for added income, GDP and consumption. In the November 9, 2012, issue of his newsletter “Greed and Fear,” Credit Lyonnais Asia Pacific Market strategist Christopher Wood highlighted India’s HDFC Bank with its impressive 10-year compound annual growth rate in net profit of 33 %. With a 4 % market share nationally, the bank feels it still has lots of room to grow. Its current strategy is to expand into what it calls “the deeper geography,” with 75 % of the bank’s 2544 branches now being located outside the top 9 cities. The strategy seems plausible. India has avoided a systemic crisis in its banking industry despite credit growth averaging 22 % since the year 2000.

Rural India harbors a massive hidden engine of growth. It’s the roughly 2,500 large villages that have been reclassified as “census towns” since 2001. These are smaller farming communities and larger market town-type settlements experiencing a rapid growth. They are adding an entirely new demography to the consuming class. In order to become a census town, a village must meet three criteria: It needs at least 5,000 inhabitants, with a density of 400 people per square kilometer. And at least 75 % of its male working population must be “engaged in non-agricultural pursuits.” These are towns where farming is no longer the main source of income and where most people have turned to other professions. According to India’s census, the number of these formerly sleepy farming villages has almost tripled since 2001 to 3894.

The Indian business paper “Mint” ran a series on these census towns in autumn 2012. It described not only how their number has grown so fast, but also how escalating housing prices and industrial rents in India’s Tier 1 and Tier 2 cities are pushing companies into the surrounding rural regions. Many small- and medium-sized enterprises are forced into sleepy villages in the periphery, where wages and rents are lower and farmers are willing to sell their lots for a profit in order to move further into the countryside, where they can get more land for cheaper prices. In these former farming villages, new companies create additional jobs and wages go up. Families start to use gas cylinders for cooking food. Internet centers and bank branches are popping up. Fiber-optic cables are being laid, schools are built, and roads are starting to be better maintained. And electricity is available more often.

So far, these towns are not evenly spread across India. Two-thirds of them are concentrated in only six states: West Bengal, Kerala, Tamil Nadu, Maharashtra, Uttar Pradesh and Andhra Pradesh. This means that India is able to add a second engine of growth to the already existing urban sprawl—the fast but organic growth of many towns and villages. One of several consequences of this unofficial urbanization through the spurt in census towns is a rapidly growing integration of rural India into the new consumer economy with its growing degree of organized retail. And people are quickly adjusting the way they buy products. Many of the census town inhabitants are now watching television and going back to their supermarkets and kirana with additional queries. Now they are also looking for hair conditioners, air fresheners, fizzy drinks and even processed cheese. These items are no longer seen as a luxury, but rather as newly-affordable products.

At the top of the Indian income pyramid there is rapid growth as well, but from a much smaller base. Only 0.3 % of the population has more than $1,000,000 in assets. There are 109 billionaires and slightly more than 7,700 high net worth individuals who collectively own $925 billion. In the private banking business, this group is typically defined as having an investible finance (financial assets without primary residence) in excess of $1 million. There are an additional 81,000 super rich (in 2011–2012) with a minimum average net worth of $5.6 million. The ranks of the super-rich have swelled by 30 % over the past 10 years. But they are still a limited market segment. And they are far outweighed by the middle class in terms of quantity. The latest "Top of the Pyramid" report by Kotak Wealth Management is forecasting the number of the super-rich to triple over the next 5 years (Agence France Press 2012).

However, the market segment of the affluent and rich is already large enough to be interesting for global luxury brands. These high-end consumers are reliable. India's rich do not need to cut back on their lifestyle, even if the economy slows down. And they have very distinct preferences, as the Kotak report states: "They also want to make sure that they stay well separated, in branding terms, from the likes of you and me." Of course they like fine cars and they usually own three or four of them. And they prefer to switch to new models frequently to remain en vogue and give themselves the opportunity to outshine their peers. German cars are extremely popular among these affluent and rich Indian consumers, especially among younger buyers. Many super-wealthy Indian consumers buy cars on loan because they want to take advantage of tax benefits.

The Forbes rich list in 2012 included four Indian billionaires among the 100 richest individuals in the world: Mukesh Ambani (petrochemicals), Lakshmi Mittal (steel), Azim Premji (software) and Savitri Jindal (steel). There are several examples highlighting how small the top income segment, and therefore the high-end market, still is. Apple, for example, sold its entry-level iPhone for around $500 in 2012, and only reached a startling low market share of 1.2 %, while India is a massive market with 220 million handsets sold per year. Starbucks didn't enter the Indian market until 2012, partnering in a joint venture with Tata Global Beverages. Alfred Dunhill, the British luxury menswear and accessories brand, shut its stores in Delhi, Mumbai and Bangalore after it found out that S. Kumars, the owner of local

Dunhill partner Brandhouse Retails, did not have sufficient experience to market luxury brands. In late 2012, about one-third of 150 international fashion brands launched in India since 2006 had either changed partners or exited the market, in many cases because the pace of expansion was too slow, according to retail consultancy Third Eyesight. That makes finding adequate premium retail space more difficult. To overcome this hurdle, some high-end brands are moving into heritage homes. Hermes, for example, moved into a Victorian property in Mumbai's Horniman Circle to sell its popular Birkin bags. Kimaya Fashions chose a large bungalow in the upscale Jubilee Hills in Hyderabad.

"International brands are looking for Indian partners who have the ability to facilitate growth and help multiply their presence across the country, housing them in the right environment and coming up with out-of-the-box ideas," explains Roasie Ahluwalia, the general manager for marketing at Genesis Colors, which markets Burberry and Jimmy Choo (The Luxe Flux 2012). In other words: The luxury market is still nascent, but very promising. "This was the last frontier to be opened, it will make India a preferred market," said Tikka Shatrujit Singh, chief representative in Asia for French luxury firm LVMH, in November 2011. International brands are currently targeting additional urban centers, which were earlier deemed to be too conservative or not developed enough. They are now moving into Kolkata, the capital of West Bengal, Chennai, the capital of Tamil Nadu, or Surat, the jewelry manufacturing cluster in Gujarat. "Now these cities are among the emerging hot destinations for international luxury and premium brands that cater only to the rich in the big cities in India," explains Sanjay Kapoor, the managing director of Genesis Luxury.

The prospects for international brands targeting India's middle class remain exceptional. The disposable income of average households is expected to grow by 5.3 % annually until 2025, according to McKinsey. Findings from a study by The Boston Consulting Group suggest that household incomes will rise 2.9 times between 2010 and 2020, with consumer spending expected to grow 3.6 times in the next decade. A quickly growing affluent generation of Indians who grew up in the 1990s will be responsible for 26 % of total spending before 2020, according to the report. And the Federation of Indian Chambers of Commerce and Industry (FICCI) is predicting the country's retail sector to become a $1.3 trillion opportunity by the end of the decade.

No wonder Reliance Industries is now targeting five times more in retail revenue for the next 4 years. Expectations in the market for fast moving consumer goods (FMCG) are very high. Nielsen sees "Middle India", the part of India that is made up of 400 towns with populations between 100,000 and one million people "as a key growth engine for the next 10 years." According to Nielsen, these cities are ready to behave like the metropolises of tomorrow, and many of them are easier to penetrate due to relatively sparse competition. Middle India already accounts for 20 % of India's overall FMCG sales, and 30 % of the urban FMCG business. Data from the National Sample Survey Organisation (NSSO) show that in 2009, for the first time in a quarter century, the rate of growth of consumption in rural India has outpaced the urban increase.

In 2012, there were 59 malls either proposed or in various stages of construction in Southern India alone, according to a real estate survey by Jones Lang LaSalle. They are mainly built in Bangalore, Chennai and Hyderabad. The rapid growth of income, consumption and the middle class has various far-reaching consequences for India. It sets in motion a chain effect that will produce even more growth, because the middle class is demanding housing, infrastructure, better schools and more jobs. This will not only lead to an acceleration in manufacturing. The middle class is paying huge sums for the education of their children to become engineers, computer specialists and mathematicians. This will create even more aspirations, especially among the young generation. More than that: India's growing middle class may also become politically assertive. The lower middle class, which is fueling the expansion of this income segment, may completely change rural voting patterns, because it is characterized by diligent voting. For India's politicians, the middle class may no longer be irrelevant. A fact that could easily lead to accelerated infrastructure investments in rural India, which would help to sustain high growth rates for the country. "I do believe that intrinsically India has all the characteristics of growth," explains Nestle CEO Paul Bulcke, "we are related to what consumers, the building up of middle classes, are going for. That's the interesting dynamic that actually inspires my optimism."

5.7 Income Shifts

Unlike many emerging countries, where the development model is usually based on export-led growth, India's economy is mostly driven by domestic personal consumption. Due to rising incomes, better education and an accelerated growth in rural areas, Indian consumers are trading up to higher valued products at an increasing rate. According to various reports, around 80 % of Indians have been trading up in at least one product segment annually for the last couple of years. Consumers in rural parts of the country are now even switching faster to more expensive products than their countrymen in major metropolitan centers. The domestic market has now reached a critical milestone. It is evolving from a merely cost-conscious to a value-conscious market, creating a powerful magnet for international brands and services. By 2020, the total volume of personal consumption in India might get close to the size of Japan's today.

The National Council of Applied Economic Research (NCAER), India's Premier economic research institution, is projecting radical income shifts to occur from now to 2025. The income pyramid will quickly move from a typical poor country triangle shape—with a large bottom and a tiny top—to a diamond-like shape, where the middle class will represent an ever larger segment. In its 2005 study, the NCAER categorized households into five segments: **Globals** (the richest with more than $20,000 annual income), **Strivers** (upper income part of the middle class—$10,000 to 20,000), **Seekers** (lower purchasing power middle class with $4,000 to 10,000), **Aspirers** (still poor, but not yet middle class—$1,800 to 4,000) and **Deprived** (can just about survive at less than $1,800 annually).

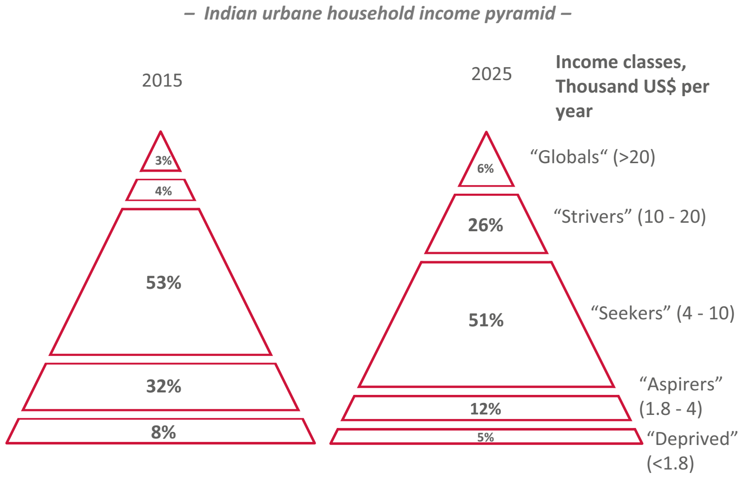


Fig 5.3 Household income structure in urban India and expected changes between 2015 and 2025. NCEAR and McKinsey quoted in IMA CFO-Connect (2011).

According to the study, households of Globals will increase tenfold to 6.8 million from 2005 to 2025. During that period, the number of households of Strivers will explode by 24 times to 29.6 million people, while Seekers will see a tenfold increase to 58.1 million households to become the largest single segment in the pyramid. The size of the Aspirers segment will shrink by two-thirds to 13.7 million. And the Deprived, who are fighting for their survival, will be halved to 5.7 million households. This is a massive shift with far-reaching consequences for consumption patterns and purchasing behavior. In 2005, just 12 % of urban and below 4 % of rural households were considered middle class. By 2025, 80 % of urban households are likely to have joined the ranks of the middle class. One out of four rural households will by then be in this category. Figure 5.3 shows the accelerating change in urban Indian income structures between 2015 and 2025 (IMA CFO Connect 2011).

If you translate this shift into absolute numbers, it becomes evident how fundamental this income shift will be: Urban middle-income households, which accounted for 38 million individuals in 2005, will account for 439 million in 2025. This represents a whole new universe for non-essential life-style products, leading to a rapidly growing demand in healthcare, communication, entertainment, hospitality services and transportation. It comes down to nothing less than the last great consumption story in the emerging world, next to China.

Rural India is following in urban India's footsteps. Currently, rural India represents 50 % of the country's GDP and 70 % of the population. Rural consumers are not much different from their urban peers in terms of their aspirations. They also like two-wheelers, FMCG products, cell phones and jeans. According to the NCAER forecast the number of individuals in rural middle class households will rise from 30 million in 2005 to 210 million by the middle of the next decade. By that time the Globals, India's top income segment, will still represent a very small share of the population. But their number will have risen to 30 million, which is as large as the population of Canada today. They were three million in 2005. More than 90 % of these Globals will be concentrated in metros and major cities, making it easier for international brands to target them. Already, India's population of high net worth individuals is among the world's top 12, right behind Italy and Brazil in global rankings.

Income growth overall in rural India is driven by increases in the minimum support price for primary crops, as well as by improved infrastructure, growing exports and an expanding non-farm sector. There are now more small enterprises operating in rural India (20 million) than there are in the urban parts of the country (17 million). The non-farm contribution to income has already reached 60 %. So the economy is becoming less dependent on agriculture. This has important consequences for the collective income stream. More and more households in the countryside now have multiple sources of income, and there are an increasing number of families with at least one member who earns a regular salary. Many more families are now in a position to buy even more expensive goods at any time during the year. They don't need to wait for their harvests before they purchase durable goods. Still, on a per-capita basis, consumption of FMCG goods is significantly lower in rural areas. But demand is set to catch up fast for reasons already mentioned. A recent McKinsey report forecasts that by 2017, consumption per person of FMCGs in rural India will reach urban levels. Therefore, the development of rural marketing strategies has become a hot topic across many industries. Such strategies need to be designed with long-term considerations in mind. And they should be designed early, because of lead times for building the necessary presence.

Already, major international top-end and luxury brands are targeting aspiring consumers in rural areas of India. BMW for example has embarked on a unique initiative, deploying a temporary showroom to reach prospective customers in smaller towns across the country, allowing them to get a first feeling and experience of their favorite cars. According to an A.T. Kearney report, one out of four new luxury outlets is now opening in a small town. In a report for Hong Kong's South China Morning Post, Amrit Dhillon described his most recent visit to rural India. In his own words, Dhillon was "bemused as to why it has taken them (Western luxury brands) so long to figure this (massive development) out." Dhillon, himself an Indian writer, referred to how much money "was tucked away behind the grime, ugliness and squalor of India's small towns." In the report he recounted his visit to Ludhiana in Punjab, North India, which boasts the largest number of Mercedes in the country as well as the highest sales of $20,000 watches. Dhillon found it odd how international luxury brand-name companies ventured quickly into China's Tier 2 and Tier 3 cities, while being reluctant to do the same in India. He also noted how he was surprised that Western brands in China willingly advertise in Mandarin in order to better reach consumers, while they were more than reluctant to advertise in Hindi-language magazines and on Hindi TV channels (South China Morning Post 2012).

Dhillon's observations only cover a particular sample of brands. But a growing number of European and American companies operating in India have learned their lessons well. Global banking major Citibank for example started its latest push into India's retail banking segment with surgical precision, targeting the "emerging affluent," the segment that is identical with the Seekers in the NCAER income pyramid. They represent the fastest-growing income layer in the country and feel "ignored," according to Citibank's own research undertaken in preparation for its market entry. Local Indian players, meanwhile, have carefully adjusted their portfolios to cover all interesting income segments at the same time. Reliance Brands, for example, has chosen three levels of positioning. In luxury, it cooperates with names like Ermenegildo Zegna and Paul & Shark, while in "affordable luxury", it offers brands like Diesel Jeans or Thomas Pink shirts. In its premium business, Reliance Brands is running stores under names like Quicksilver or Timberland. "More and more customers are aspiring for international brands, they are our targets," explained Darshan Mehta, the 51-year-old CEO of Reliance Brands in an interview.

5.8 Indian Consumerism

Since India threw its doors open to economic reforms and trade, its situation has changed dramatically. Higher incomes and more buying power, maturing consumers with higher awareness and growing expectations, as well as the development of an urban lifestyle, have given rise to a rapidly expanding consumerism. A growing share of purchases is not driven by necessity, but by the wish to satisfy individual needs. Throw in optimism about the future, more easy loans and the growing presence of women in the workforce, and you have an ideal cocktail for added consumption. One of the main characteristics—maybe even the key feature—of Indian consumers is their high degree of value orientation. With the rise of foreign brands, a flood of new TV channels and ever more advertisements, consumers between Delhi, Chennai and Hyderabad have realized that they are spoilt for choice and that they are calling the shots in terms of quality, service, price and the value of their products. The constant hunt for good bargains is a unique Indian characteristic. "Indian consumers are obsessed with getting maximum value for minimum cost. In their price-consciousness, the rich are no different from the middle class. I'm not sure why", explains Amrit Dhillon, "perhaps it's just the primal need to haggle. I have seen corpulent, over-fed rich women beat a poor auto rickshaw driver down by a few rupees. And it must be the same syndrome that explains why, even inside the expensive, perfumed interiors of a luxury outlet, they will ask for a 15 % discount. I'm not sure which is cheaper."

"A decade ago," writes Sanjay Kaptan from the University of Pune in an essay on India's consumerism evolution, "we didn't have a single mall. A year ago, there were less than a half-dozen. But within 2 years, more than 250 are expected to be operational." There is yet another big driver for the shift that Kaptan describes. It is the shift from the time when India mainly celebrated its "swadeshi" (locally produced goods) to the new era when it started to embrace global brands with open arms. It is the rise of mass advertising, which uses more sophisticated methods of persuasion.

Reports and analyses of India's consumer market usually identify three main newly emerging segments fueling the consumption story. Children, young working singles, and the "Urban Indian Woman." India has about 300 million children aged 4–14 years. With rising incomes, and in many families more than one income source, parents are increasingly indulgent. They want to pamper their kids. Children, in turn, are becoming influencers. They have a growing bearing on purchasing decisions by their parents, especially their grandparents, because thanks to a higher degree of exposure to the outside world, to tech and to TV, their awareness levels are rising. And peer pressure among them is rising too. As an internet-savvy generation they can help their parents compare data and make better informed decisions, changing their buying patterns.

India's youth has become a primary target of consumer goods companies as well. The majority of the population is below the age of 25. They have internet access, they are informed, and they know what they want to achieve in their lives. More of them are approaching the job market as skilled workers and are getting good entry jobs. They love brands and gadgets and they aspire to be trendy. Their brand awareness is increasing. And they want to spend on leisure and gratification. The young generation is changing the dynamics of whole markets such as cosmetics, mobile phones and apparel. The "Indies"—financially independent young people—are expanding their footprint in India's consumer markets. "We have tripled our sales in Bangalore city in the last three years," recounts Shumone Chatterjee, Levi Strauss India's marketing director in Kaptan's essay. The rapid rise of sales is attributed to more income in the hands of the 18–22 year-olds, mainly employed in business process outsourcing companies. According to estimates at the consumer division of the Standard Chartered Bank in India, three million young wage earners in this age bracket are added to the national work force every year. The banks are among a range of providers that are catering to this consumer segment. They offer new credit cards with hip designs and exciting advertising approaches. Such campaigns are very different than the traditional boring approaches used in Europe or the U.S. to appeal to the already silver-haired main target groups there. For example, credit cards offer special discounts to users at popular hangouts and hip retail stores frequented by members of this age group.

More and more women in urban India have started to break from their traditional roles. Many are starting to leave their sacrificing image and begin to increase out-of-home activities. They are spending more time with friends, at boutiques, at fitness centers or at the salon. More jobs for women result in more economic empowerment and independence in a society which still sees a very low share of women in the workforce. Manifestations of this trend can also be spotted in the soap operas on Indian television that are becoming more and more popular. In a "Cultural Perspective" of India's evolving consumer society, Alladi Venkatesh at the University of California explains, how the country—after being a slow starter—accelerated its venture into consumerism. Venkatesh identifies 13 different factors to describe India's march towards a consumption oriented society (Economist

2012). Among them are pent up demand, changing women's roles, rising aspirations, new shopping environments, the emergence of traveling and a strong media proliferation. He also adds the growing domestic consumer goods manufacturing sector, the entry of multi-national corporations and the emergence of the rural consumer sector.

India has come a long way with this development. Traditionally, consumerism had been something that people looked down upon. For generations, Indians were strongly encouraged to save, rather than spend. With so many people in poverty there was often a feeling of guilt when money was spent. This started to change with a new consumer movement early in the last century. The "Passengers & Traffic Relief Association" (PATRA) in Bombay became the first consumer body. Even Mahatma Gandhi, who is well known for frugal consumption rather than flashing wealth, delivered a famous quote: "A customer is the most important on our premises. He is not dependent on us, we are on him." In the 1980s, a new era dawned. India became exposed to global programming and a growing number of language channels on TV. Multinational companies started to target Indian consumers. In a socialist economy they had long been neglected. All of a sudden, they were ensnared and had choices.

5.9 Market Challenges for Foreign Companies

A vast geography, a highly complex culture, a sub-standard infrastructure and an inefficient bureaucracy: These are among the most common complaints when international investors describe the challenges of doing business in India, where government regulations can be unreliable and even be changed retrospectively. One reason why there are so many complaints is that there is a lot of investment coming into the huge country. Even with a long list of complaints in mind, there is an overwhelming feeling of opportunity among investors. In 2011, consultancy Ernst & Young declared India "a foreign direct investment (FDI) hot spot in a cooling world." India's FDI flow touched a record $50 billion in 2011, almost half of what China registered during that year. The country became the fourth-most popular FDI destination in terms of projects (behind the U.S., China and the UK), and the no. 3 worldwide in value. However, some of the momentum was lost in the following years and in 2013 FDI into India was only at $28 billion. Therefore, India is working on its attractiveness for strategic operations, like R&D centers or regional headquarters. But its inward FDI activity is already mainly targeted at large industrial and back-office operations. In 2011, almost 300 large-scale manufacturing projects created more than 140,000 new jobs, most of them in the automotive, equipment and metals industries. The top five destinations for FDI in India are Bangalore (as a global hub for service sector investment in IT), New Delhi (services industry, particularly IT), Mumbai (manufacturing and services as India's commercial capital), Pune (as a large industrial and emerging software and IT services base) and Chennai (automotive and railways). In October 2011, the government unveiled the National Manufacturing Policy (NMP). This major initiative is aimed at resolving key challenges facing the manufacturing sector. One of the key features of the NMP is the establishment of national manufacturing and investment zones. The goal is to create 100 million industrial jobs and to increase manufacturing's contribution to GDP from the current 16 to 25 % by 2022.

There are many challenges. While foreign investors value India's growth opportunities, the high potential of its domestic market and its young and increasingly educated workforce, they have constant complaints too. And this has consequences. Despite the progress in many areas, the 2012 Doing Business report ranked India only 132 out of 183 countries. This was an improvement of seven positions from the year before, but still well behind BRIC peer China that ranked 91st. In terms of required procedures and the necessary time to set up a business, India is more or less in line with other BRIC members. But from electricity and infrastructure to logistics nightmares and efforts to propose retroactive taxes, the list of complaints is long. In a recent review of the book "India Grows at Night: A Liberal Case for a Strong State", the Economist characterized the country by way of a comparison with China: "The hoary old question for China is whether, as it gets richer and more capitalist, liberal democracy will inevitably follow. In India it is the obverse: after 65 years of liberal democracy, is a richer, more capitalist economy now bound to emerge?" The report referred to a key finding in the book: On average, an Indian factory-owner must confront 17 different inspectors, each with the power to close his business. The conclusion: "They must be bribed."

Recent reports out of India have highlighted the most pressing challenges. One of the best known examples is the widely reported disruptions at the Maruti Suzuki factory in Manesar, Haryana, where about 3000 workers rioted, leaving one senior manager dead and more than 100 injured. Labor-related unrest and industrial disputes, some of them stemming from land acquisition practices, are not an exclusive problem for India. But they are part of a string of experiences that can dent investor confidence. In the summer of 2012, the largest power outage in world history knocked out the lights, refrigerators and air conditioners of 600 million people. An old state-run and overburdened system is inefficient and cannot meet the excess demand during peak hours. Starting with a partial liberalization in 2003, private generators are increasingly producing and selling electricity to new privately owned distributors. Private capacity now covers around 30 % of the demand. For the remainder of the decade, the private sector is expected to contribute up to 60 % of the power capacity that is due to be built. But the majority of distributors are state-owned, and politics still interfere.

Another reason for concern: India, while having the fifth-largest coal reserves in the world, still needs to import large quantities of coal, which imposes significant costs due to the fact that imported coal is much more expensive. The state-owned monopoly Coal India is unable to raise output fast enough to match demand. Transport and grid network issues are adding to the supply shortcomings. India is ranked No. 87 by the World Economic Forum for its infrastructure. Within the last 5 years it slipped seven positions to No. 46 on the World Bank's Logistics Performance Index, which measures logistics efficiency. It seems that things are about to change only gradually. India's central bank, the Reserve Bank of India, is not too cheery looking ahead. It calls the government's target of achieving $1 trillion in investments for the infrastructure sector by 2017 "a formidable challenge." For international retailers like Wal-Mart, who under the most recent reforms must source at least 30 % of their goods from local suppliers, these shortcomings create real nightmares. The US retailer, who wants to turn a profit in India within 10 years, needs to boost its local supply chain from 6700 to 35,000 farmers. Due to local consumption habits, fresh produce accounts for roughly 30 % of Wal-Mart's sales in its wholesale outlets in India. Industry observers have describes the task of multinationals getting their products to Indian consumers as "a bewildering kaleidoscope of strategic and operational challenges."

One reason is the fact that India's retail landscape is predominantly traditional and unorganized. Small proprietors rule 98 % of the market, whereas in more modern retail countries like China, organized trade already accounts for more than half of all sales. In a BRICs internal comparison study, India displays the lowest percentage of the "modern" share in its grocery retail market, at only 2 %, vs. 50 % in Brazil, 53 % in Russia and more than 60 % in China. But that doesn't seem to limit the ambitions of large retailers. Anticipating more foreign competition in the years to come, local champions like Reliance Retail are in a hurry to build up their presence. Reliance wants to double its stores across all formats within the next 5 years in order to establish a pan-India presence. This includes expanding operations in Uttar Pradesh, which ordered Reliance Retail's operation closed in 2007 as part of a political campaign against large organized retailers. They were, and still are, perceived as a threat to the local kirana stores.

Investors in India can also be confronted with volatile regulation and decision making. When the world economy slowed India's growth in 2012, the government proposed changes to 50-year-old laws that enabled the authorities to claim taxes retroactively from foreign companies. Vodafone was one of the victims. The British telecom giant—along with other multinationals—pays taxes in India on earnings. But the government demanded a share of the capital gains as well. Vodafone had bought the Indian mobile operations from Hong Kong's Hutchison Whampoa in an overseas deal which according to Indian tax authorities led to additional taxes. However, in early 2012, the Supreme Court backed Vodafone and ruled that the company was not liable to pay more than $2 billion taxes on the deal.

Even big ticket infrastructure projects can be delayed for years by bureaucratic inertia, overloaded courts or sudden policy turnarounds. In late 2012, India's Ministry of Environment and Forests suspended clearances for 93 mining leases in Goa. It claimed they had been granted on wrong information submitted by the state government. Mining companies had to file fresh applications. In February 2012, the Supreme Court overturned the award of 122 mobile telephone licenses which were originally granted back in 2008 by Andimuthu Raja, the former telecoms minister. He was jailed after it was discovered that dozens of licenses were illegally allocated to companies at rates that were well below market value. The scandal cost the exchequer $39 billion, according to the central auditors estimate. The Supreme Court ruling put into jeopardy large investments by

11 major companies. Efforts to arrange a rerun of the licensing procedure were delayed for months.

Regulatory and governmental deficiencies, as well as outright corruption, are causing frequent consternation among investors. After the scandal around the 2G telephone licenses and efforts to enforce retrospective taxation, the German Ambassador to India, Michael Steiner, weighed in and suggested that India ensure more policy and judicial stability to help counter negative sentiments among investors. In a 2007 listing of the biggest constraints to competitiveness reported by Indian businesses, the World Economic Forum ranked inadequate supply of infrastructure as the greatest concern by far, followed by inefficient government bureaucracy, restrictive labor regulations, corruption and tax regulations. Widespread corruption has not only created unease within the investment community. It has also triggered fierce anti-corruption movements by activists.

The most prominent is Anna Hazare, a former army driver, who created nationwide waves when he started a hunger strike demanding stronger anti-corruption laws. Another well-known activist is Arvind Kejriwal, a mechanical engineer and former bureaucrat from Haryana who repeatedly blew the whistle on Indian politicians and some of the country's biggest business conglomerates. According to a survey by PricewaterhouseCoopers among global CEOs, 92 % of the managers are "extremely concerned" or "somewhat concerned" about bribery and corruption. They even consider it to be a threat to business growth. Indian top managers and business experts are concerned as well. Chairman Emeritus of Infosys, NR Narayana Murthy, complains that it has become difficult to sell "the India story" because of byzantine rules, suffocating bureaucracy and inconsistency in government policy.

This struggle against roadblocks to India's promising markets is attracting a lot of attention. But it doesn't seem to derail long-term expansion plans by decisive investors who are willing to unlock the huge potential and reap the profits. "The domestic consumption story is not going away from India. You just can't change the demographics, and you can't change the aspirations of Indian people", says Andrew Holland, CEO for Ambit Capital in Mumbai, an investment advisory firm. Yves Carcelle, Chairman and CEO of Louis Vuitton Malletier, concurs. Asked about the lessons that India taught him, he recently answered: "A lot of things—patience, tolerance and how to survive in chaos. If you can't handle these things, you can't do business in India."

5.10 The Indian Society

Due to reforms and rapid growth, India is firmly in the grip of constant economic and social transformation. As a result, values in the country's society are under stress, as urbanization accelerates, Indians begin to travel more extensively and are getting more familiar with the thinking and products of different countries. According to the Global Attitudes Project at the Pew Research Center "Indians both embrace this change and worry about its impact on their traditional way of life." In absolute numbers this assessment looks as follows: At 49 %, almost half of Indians like the pace of modern life, while 37 % object to it. The acceptance rate rises significantly if you go to larger cities and talk to young, better educated people, especially in Western Indian states like Maharashtra, Madhya Pradesh, Rajasthan or Gujarat. An indication of how fast things are changing comes from the percentage of those who complain that their traditional way of life is getting lost. It is 52 %. And roughly eight in 10 Indians want to shield their culture from globalization. This not only illustrates the speed of the transition but also explains why India's political elite appear to be hesitant to speed up the liberalization of domestic markets (Pew Research Center 2012).

India's changing way of life and its evolving morals can be grasped by simply following the news flow out of Bollywood. When Richard Gere kissed actress Shilpa Shetty on the cheek in March of 2008, a firestorm in the local media followed. People were so outraged that Time magazine wondered, "how the country, that gave the world the Kama Sutra, can be so prudish." Richard Gere's behavior was widely seen as an attack on India's values. And protests followed. Almost 5 years later, Sherlyn Chopra, an Indian model and actress, made it known that she would become the first Indian to appear on the cover of Playboy magazine. An outrageous announcement in a country that is so deeply rooted in conservative traditions. But this time, India did not go berserk. Even though there was criticism from the general public, the response was rather muted. The different reaction can not only be explained by the fact that this time no foreigner was involved. An important factor seems to have been "a transformation best described by the way Bollywood movies portray love and sexuality," says Miranda Kennedy. She has written a book about her 5-year posting to India as a journalist, "Sideways On A Scooter" (Wall Street Journal 2012). According to Kennedy, Chopra's appearance in Playboy is probably further evidence of the way women can choose to portray themselves in India without ruining their lives and futures.

Indeed, morals seem to be changing fast in Bollywood. But the pace of change is not as fast in the rest of the country. On-screen kissing can still make it to the front page of newspapers, at least in the lifestyle sections. Indian society is still relatively conservative. It is still difficult for unmarried men or women to find an apartment in a big city like Mumbai. And showing any personal affection in public is still not common. The forces of tradition can also be seen when it comes to arranged marriages according to parents' wishes. They remain standard, not the exception. And divorce, for example, is only slowly becoming a topic one can talk about. But this change is rather restricted to young people. And everyday clothes for females—like the sari or the kurti—are still mostly traditional, even more so for formal occasions like weddings. But on weekends you can see many more people in their jeans and Burberry. Traditional local eating habits and tastes are very much in place and unchanged. You will still find vegetarian-only and dry states in India. And there are extreme ways of sticking to a diet. India's Jains refuse to eat anything that comes from under the earth. Muslims and Hindus have their very own rules and habits, and restaurants are very savvy and flexible when it comes to catering to the large diversity of all their customers.

One of the most visible changes in society—if you don't happen to be a tourist—is the growing number of women in the workforce. But India, in this respect, has a lot of catching up to do. According to a recent paper by the Asia Research Centre at the London School of Economics, "labor force participation of females in India lags considerably behind the norm." For some readers this may sound astonishing. But it is the urban participation component that is extremely low, because in rural India poverty and the resulting necessity to work are a strong factor when it comes to integrating women in the workforce. In all India, since the early 1980s, the female participation rate—according to the paper—has only risen very slowly from 30 to 35 %. In rural India it has already reached 50 %. During the last three decades, wages for women have—on an aggregate base—risen from a mere 45 % to just 55 % of male wages.

With better education for women—and their rising number in the workforce—India's family structure is beginning to change as well. The families are getting smaller. Even in large families, the inner component of husband and wife is becoming stronger. But at the same time, individuals are starting to play a larger role and becoming more important within the decision making process, both with regard to consumption and savings. On top of the family, as an umbrella, the community (biradiri) keeps playing a vital role for all kinds of social interactions. With this tight-knit social web, brands endorsing family values have better chances to make inroads in the local markets. According to a recent e-commerce study by digital advertising agency Sokrati, the family is the leading source of recommendations for purchases (71 %), way ahead of friends (64 %), online product reviews (29 %) and product websites (24 %). A lot of buying decisions are therefore influenced by family word of mouth.

India's transition and its effects on society can also be observed close-up in one of its many traditional business hubs. Take India's perfume capital Kannauj as an example, a sleepy and remote town of 71,000 in Uttar Pradesh. Among industry insiders and well-traveled cosmetics executives Kannauj is known for its distilling of scents and as a regional center for tobacco, perfume and rose water. At 58 % it has a literacy rate well below the national average of 74 %. Traditional workers in Kannauj are struggling to keep their ancient craft alive and defend it against fierce competition from international fragrance giants such as Armani and Chanel. Local farmers here are plucking bags full of rose and jasmine and bringing them to nearby distilleries, where they are mixed with water and then heated in copper pots. The aromatic steam that escapes from these pots is then distilled into a woodbase, usually sandalwood, where it turns into attar, a natural perfume oil which is free of alcohol and chemicals. Attar is highly concentrated and is therefore usually offered for sale in small quantities, packaged into decorated crystal cut bottles or small decanters crested with jewels. Attars have been popular throughout the Middle East and the Far East of India for thousands of years. Kannauj is to India what Grasse is to France.

The problem for these traditional workers in Kannauj is a changing consumption pattern in their own country. After the launch of the latest round of reforms, India's brand-conscious consumers started in increasing numbers to switch to foreign fragrances like Azzaro, Armani and Burberry and they are starting to shun away from using attar. At the same time, rising costs for raw material—particularly the oil that needs to be imported—are adding pressure to the traditional business. The number of distilleries in Kannauj has come down to about 150, from around 700 in the late 1990s. Even though India's perfume market is seeing annual growth rates of up to 30 %, "the attar industry is grasping for survival," according to Rohan Seth, the vice-president of the Fragrances and Flavours Association of India (Reuters 2012). Kannauj is only one of an unknown number of battlegrounds in India, where ancient practices of "incredible India" are in a struggle with the forces of modernity.

5.11 Basic Consumer Segmentation

Indian consumers have become a favored target for intense studies and research. Brand managers, think tanks and bank analysts are highly interested in finding out how the country's transition and the rise of its huge middle class are changing consumer behaviors. A successful market-driven brand positioning very much depends on excellent navigation in this rapidly evolving universe. One of the first tasks to solve is getting a grasp of the different income segments in order to make the right bet for positioning the brand. A basic all-India segmentation defines five distinct segments between rural natives and lifestyle leaders in large cities. Such segments are created through an algorithm that groups those people into one segment that share certain characteristics across a large number of socio-demographic, consumption related and psychological variables.

Rural natives, who populate the lower income bracket, have more conservative ambitions and often prefer to stay near home. **Rural explorers**, who aspire to ascend within the middle class, are moderately ambitious, willing to migrate and explore urban India. Further up in the segment hierarchy are **urban settlers** who left rural India and try to afford better living with more amenities. There is also a small but very aspiring segment of **young urbanites**. They are extremely career minded and in pursuit of enough money to support a comfortable lifestyle. In the top segment of this pyramid are high-income **lifestyle leaders** who want to be seen spending their money. They are prosperous and embrace conspicuous consumption. They have forever turned their backs on the mantra of frugality and want to stand out by flashing their wealth. It is this group that is foremost targeted by prestigious Western designer brands.

Indian consumers are well known for their high degree of value orientation, as discussed earlier in this chapter. When Maruti Suzuki launched an upgraded version of its best-selling Alto car in late 2012, it made sure to introduce it as a low-priced car loaded with value. In India, even luxury brands are often forced to improve their foothold by developing unique pricing strategies that can include large discounts. As we have already seen, there is also a high degree of family orientation. Family members have an exceptional influence on purchasing decisions. One of the consequences of the strong focus on family is that most people give more importance to nurturing and caring than to ambition.

Culture and tradition strongly impact Indian consumer behavior. One example is how Indians celebrate important occasions. No matter if it's the first job, a wedding, the birth of a child, a promotion or the preparation of an important meeting, when people in this country meet to wish themselves luck, there is always something sweet involved. Candies, pastries or tarts, mostly based on ghee, jaggery, fruits or rice, are most common. Cadbury has managed to position some of its chocolate products as a very suitable addition for social events. National pride and consumer patriotism play an important role in the purchasing and gift-giving process. In India, the national anthem is even played before movies at the cinema, and moviegoers stand up and sing along. In markets where foreign competition is not yet strong, consumers often opt for local brands because they fear maintenance problems. And Indian consumers are even more service-oriented than their Chinese counterparts because many households employ servants as manual labor. Indians are used to custom-made solutions and products. From beds and suits to kitchen cabinets to furniture, many products are hand-made with individual finishing. If you go to any furniture store in India and ask for the standard bed size, the answer will very probably be: "Whatever you need."

Preferences in India can vary from town to town. Like in other BRIC countries, local and regional tastes can be influenced by widely varying weather conditions, the infrastructure, the water quality or the (non-)existence of cooling and supply chains for frozen products. But there is much more diversity in languages in India than in comparable markets. The large number of regional dialects makes it essential for mass products to be promoted in local languages. India's population is younger than other large emerging markets. Products that cater to younger age groups have a large potential. And financing is always an important feature when products are advertised. Even luxury car sellers prominently place their financing offers.

Indian consumers very much rely on the advice of peer groups and friends. They are demanding and active, and they prepare well for their purchases. According to Nielsen, 54 % of digital consumers in India trust their friends' comments. At 45 %, almost half of them write comments and reviews. And they go through more sources—offline and online—before making their purchase. An increasing number of consumers are spending time across more shop shelves than before. And in different studies, around 40 % of urban shoppers claimed to know the prices of most items. For marketers this is a growing challenge. They need to stand out by creating a superior experience, appeal to local senses, make a convincing case of value for the money and at the same time be profitable at affordable prices while facing strong local competition.

Convenience, time saving and trust are vital parts of the decision making process, especially when brands are bought online. Indian consumers are increasingly exposed to the West through relatives who live abroad or by traveling the world. This has not only made them better-informed consumers. They have also come to cherish foreign products much more than in the past. In the higher-end and luxury brand categories, there appears to be a simple relationship: The more foreign a brand is perceived to be, the more positive the attitude towards the brand. In our first representative survey on the perception of foreign brands in India, we also found support for this finding. We polled more than 1000 Indian consumers in Mumbai, Delhi, Bangalore, Chennai and Pune. The results are unambiguous. In general, Indian consumers do pay great attention to the Country-of-Origin of a certain product with 69 % percent agreement to the respective question. And again, the data showed a familiar pattern: The higher the income of the respondent, the higher the preference for brands with foreign origin. For example, while 47 % of Indian middle class respondents indicated a positive attitude towards German brands the positive evaluation was even stronger among respondents from the upper middle class (71 %) (globeone 2012).

Local Indian brands have started to piggyback on the COO-effect, which stands for the tendency that consumers—under certain circumstances—react positively (or negatively) towards a brand if they know that it is from a certain foreign country. Realizing this up-selling potential, a host of local brands across various categories has adopted more or less convincing foreign names and tried to give their brands a foreign appearance. Among them are apparel maker Munich Polo, Da Milano (high-end leather accessories) and Titan (watches). If you drive around Bangalore, you will also run into a Hollywood Town or a Swiss Town. These gated villa communities are promoted on their website as “real international standard” properties. Even if many Indian consumers might not readily understand these brand names, they can still add allure and carry some mystical aura that is able to create attention and excitement.

India’s consumers not only represent a large universe with extreme diversity but also a quickly evolving breed of avid shoppers. Research and marketing agencies are constantly trying to get a gauge of the latest trends and changing behaviors. Among the most recent trends highlighted in Nielsen’s regular Shopper Trends Study are the following: Consumers are starting to gravitate more towards modern retail. They are shopping for bigger and better deals. Deal-seeking behavior is still on the rise. And big formats, which are still tiny in mostly low-income India, are just about to take off. And the 14 key markets in the country—among them Mumbai, Delhi, Chennai and Hyderabad—are witnessing solid double-digit growth rates. They still account for three-quarters of modern trade sales. One out of five urban shoppers is regularly purchasing products at modern and organized stores. But the rural consumer seems to have also come of age. Large personal grooming packs—used for sharing with family and friends—are now visibly on the rise, due to convenience and value for money.

Consumers in India have not been exposed to global brands for a very long time. So in some cases they are still not familiar with them. It might be difficult for them to evaluate how much convenience and advantage they have to offer. Therefore it is important to keep in mind that there is a lot of variance in brand perception. What does all that mean for Western brands in India? Branding in this emerging country has a whole set of important dimensions. Product adaptions to local tastes and habits are certainly one of them. Even Coca-Cola has expanded its portfolio in

India, as has Pepsi. Both companies have made acquisitions in order to achieve that. Coca-Cola even has adapted its original recipe to local tastes and is promoting a second Cola-brand for more traditional customers. Initially Coca-Cola purchased the brand with the intention to close the competing business but then was forced by angry consumers to maintain the brand.

Functionality is another important determinant of successful brand building in this country. Swiss food giant Nestlé has created a huge market for itself with its Maggi brand by communicating the functional value of the product. The company launched its "Maggi 2 Minute Noodles," an instant food product, in 1982. Its initial strategy to target working women was not very successful. Research revealed that it was children who liked the taste of Maggi most. So the brand was re-positioned as a convenience product for mothers and as a fun product for children. Taglines in an aggressive promotion campaign read like "Mummy, bhookh lagi hai" (Mom, I'm hungry). Maggi's share of the urban instant noodles market in India reached more than 90 % at its peak.

As indicated already, offering 'good value for money' is a very crucial dimension in value conscious India. Levi's, for example, was successful with the launch of an affordable Signature range that caters to value conscious customers. In rural areas of India, shampoos showed great success when they were offered in sachets instead of bottles, making them more affordable. Body care products, though, are not the only category where marketers discovered that with small pack sizes they can reach consumer groups who were earlier not considered to be their target customers.

Some brands in India were successful thanks to the way they communicate with consumers. Many of those who gained market share were able to connect with consumers in a language they relate to. It is no coincidence that the biggest brands in India belong to companies that managed to build a strong rural presence. Among them are Asian Paints, Unilever and Colgate. They all managed one way or the other to occupy the lower price points as well. Their "access brands" managed to offer benefits similar to premium international brands, but at an affordable price. British malted milk drink producer Horlicks is globally positioned as a drink for adults. In India, it's a health drink for children. McDonald's also Indianized itself. The fast food restaurant chain had to replace its Big Macs because Hindus do not eat beef. Instead you will find the "Maharaja Mac" on the menu, served with either lamb or chicken. There is also a vegetarian burger called McAloo Tikki. Another example: Suitings brand Reid & Taylor which globally built its image around the character of James Bond, Indianized its campaign with film actor Amitabh Bachchan, who became popular in the 1970s as the "angry young man."

5.12 Key Purchase Drivers and Consumption Motifs

India's highly diversified culture—with its many religions, languages and regional customs—exerts a deep influence on consumer behavior. The large number of sub-cultures in different geographical areas results in strong—and numerous—

variations of consumer behavior. Scientific research on this topic is limited so far. But the definition is pretty straight. According to a paper by the AXIS Institute of Planning & Management in Kanpur, Uttar Pradesh, "culture influences consumers through the norms and values established by the society in which they live. The impact of culture is automatic and almost invisible. Culture not only influences consumer behavior but also reflects it" (Pandey and Dixit 2011). This definition includes knowledge, belief, art, morals and customs, and any other system received as a member of society.

Most researchers, marketers and scientists share the view that culture is the strongest fundamental determinant of a person's wants and behavior. The strongest group influencing a person's behavior is the family. In countries like India, where children continue to live with their parents at least until they are getting married, their influence can be extremely strong. Studying a culture like the Indian allows finding out about food habits, dress codes, worships, rituals and basic purchasing decisions like where to buy, which brand to buy, and when to buy it. India is a strongly family-based society with a relatively masculine culture. It is also regarded as collectivist, because from birth on people are integrated into strong cohesive groups, most of the time extended families. Purchasing decisions in these cultures are in many cases based on conformance, group enhancement and social status. According to studies, India's collectivist attributes are not as strong as China's because of the powerful influence Confucianism exerted on Chinese society, but they still play an important role.

Thanks to high growth rates, urbanization, rising education levels and increasing foreign influences, the characteristics of Indian families are also changing. Liberalization and the explosion of the media sector are contributing to this trend. Families are shifting from being strictly hierarchical to more egalitarian. In countries with a high rate of urbanization, this transition is usually more pronounced. Men are still major decision makers in Indian society. But women—with an increasing participation rate in the labor force—and children are step by step getting a bigger share of the pie when it comes to making purchasing decisions.

India has always been a very hierarchical society. This also relates back to the officially abolished but still existent and influential hierarchical caste system, which was developed by Hindu priests. It dominated Indian society for more than 3000 years. The caste system consists of 4 distinct classes, with the Brahmins on top, followed by the Kshatriyas (warriors and administrators), Vaisyas (artisan commercial class) and the Sudras (farmers and peasants). Beneath these 4 castes is a 5th group which is socially excluded and described as "Dalits" (weak, crushed, split open).

One of the results of this hierarchical thinking is that inequality is much better accepted than in other countries. Consequently, Indian consumers are status conscious and can easily be motivated to buy luxury goods, as high-end brands now serve as markers of status and class and Indian consumers are happy to display them. Some researchers emphasize that the wish and willingness to display one's position in society is further encouraged by Indian tradition, which imparts special meaning to objects. Icons and symbols are a very important part of life. Thanks to the manifest hierarchical character of India's society—further supported by urbanization and new well-paying jobs—modern India has a marked upward social mobility. Aspirations of wealth, power and modern lifestyles are clearly present at different layers of urban society.

Part of the emerging new consumer culture is the growing popularity of dining out. There is an evolving pub culture. There is much demand for male grooming and personal hygiene. And, as there is the desire to look and feel good, beauty parlors and health clubs are also on the rise. Even Western-style color cosmetics are selling well and people are spending more money on non-essential consumer products and start to shift their emphasis from a pure price consideration to design, quality and trendiness. All this is influenced by the growing impact of television and more aggressive advertising. The whole meaning of shopping is changing in the country. Once it was a mere necessity. Now it is much more than that. Space, ambience, convenience and choices are factors with rising importance. This is playing into the hands—and reflects the advance of—integrated shopping malls and all kinds of multi-brand retailing. In general, the requirements for shopping experience and products are becoming more sophisticated. Products have to be flexible and adaptable to individual needs and preferences. Therefore, global marketers must be familiar with strategies that balance necessary local adjustments with the need to leverage global technology and the global image of the brand.

5.13 The Media Landscape

Rising incomes, increasing consumption, an exploding advertising market and improving literacy: India's media landscape is developing fast. Advertising volume on the subcontinent is currently only one-eighth of Japan's. But studies are forecasting it will grow four-times as fast in the years to come. The advertising market has grown by 41 % from 2009 to 2012 alone. The largest media for advertising are newspapers, followed by TV. Currently, India is the 14th largest entertainment and media market on the planet, with industry revenues contributing around 1 % to its GDP. This is according to the "India Entertainment & Media Outlook 2012" by PricewaterhouseCoopers. India's media industry is growing faster than that of the other BRIC markets, mainly for two reasons. India is a smaller market than the other BRIC members, which allows rapid catch-up growth. Second, the country is massively under-penetrated in terms of advertising and consumer spending. Therefore, it has a large potential to grow. In 1976, with 775 million Indians, there was one newspaper copy published for every 80 Indians. By the turn of the century, with more than one billion people, there was one copy for every 20 Indians. Back in 1976, slightly more than a third of Indians could read. Since then, literacy has doubled, and youth literacy stands at 82 %. Especially the ascendance of the non-English press turns out to be phenomenal. The circulation of Hindi newspapers has risen from less than eight million when the reforms started to more than 25 million. There are more than 3000 newspapers published in Hindi, about three times as many as in English. “The Times of India” is the only one in English among the top 10 dailies.

All segments of the industry are growing. The Indian Readership Survey by Hansa Research for the second quarter of 2012 showed an annual growth rate for newspapers of 3.2 %, for TV of 5 %, and for the Internet of 34.8 %. The newspaper market is highly fragmented because of the large number of languages and the sheer size of the country. In 2011, there were over 82,000 publications registered according to numbers compiled by the Registrar of Newspapers. The number of FM radio stations is forecast to grow from 250 to 1200 within 5 years, while the Ministry of Information & Broadcasting counts nearly 800 TV channels. In the meantime, nobody has any idea how many websites are out there to target Indian viewers. At the same time, the market is dominated by only a few dozen media groups, whose influence on particular markets is considerable.

Delhi, for example, is the only mega city in the world with 16 English dailies. The top three—the Times of India, the Hindustan Times and the Economic Times—account for more than 60 % of the market for English dailies. There is a visible corporatization going on in this market, with large conglomerates and the families behind them acquiring interests. The lack of restriction on cross-media ownership is one of the main factors driving this kind of consolidation. Some of the best-known moguls in the printing segment are Shobhana Bhartia of the Hindustan Times, or Narendra Mohan with the Dainik Jagran, India’s leading Hindi daily. The publishing group behind it is Jagran Prakashan, the leading media and communications group in the country, which has interests including newspapers, Internet, magazines and rapidly growing mobile value added services. Dainik Jagran, the largest Hindi newspaper, has a circulation of over 17 million but a readership of more than 55 million, as Indians tend to share newspapers with friends and relatives. Dainik Jagran has been the most popular daily in India for the last consecutive 21 rounds of the Indian Readership Survey and has been declared to be the largest read daily in the world by the World Association of Newspapers.

Some of these media groups generate so much profit that they have diversified into unrelated industries like aviation, cement, hotels and steel. One example is the Dainik Bhaskar group. Back in 1958, it ran a single edition Hindi newspaper. Today, it owns seven papers, two magazines, 17 radio stations and has a large presence in the textile, oil, hotels, real estate and power generation industries. On the boards of such conglomerates you will find directors from the media business as well as industrial executives.

According to the second competitive ranking of Indian television by Hong Kong-based consultancy Media Partners Asia (MPA), as of autumn 2012, the largest TV networks in India are Star TV, Zee and Network 18. MPA expects the industry to expand at a compounded annual growth of 11 % to reach $15 billion by 2017, up from $9 billion currently. If this forecast proves correct, this growth would be higher than that for China, the U.S. or the UK. Networks like Star, 18, and Sony are rushing to acquire or create additional language channels to cover the country. For Western brands this will be a wide portfolio of language offerings to better tailor their media campaigns.

Network 18 is one of the rising stars in the industry. Its controlling shareholder and managing director is Raghav Bahl, who is 51 years old. He began his career as a management consultant with A.F. Ferguson & Co., followed by a stint with American Express Bank, before he finally launched TV18, his production house. Bahl is a winner of the Sanskriti Award for Journalism in 1994. He has over two decades of experience in television and journalism. He founded TV18 (now Network18 Group) in 1993. He is an admired entrepreneur and was hailed as a Global Leader of tomorrow by the World Economic Forum. He was also selected by Ernst & Young as Entrepreneur of The Year 2007 for Business Transformation. Mr. Bahl crafted successful joint ventures with media giants like CNBC, NBC Universal, Viacom, Time Warner and Forbes.

Zee Entertainment Enterprises is another rising star in the rapidly changing Indian TV universe. It is the largest television group by revenues. On competitive strengths, it is only outranked by Star TV. From a single channel back in 1992, Zee has grown into a 32-channel strong network, which recently started the edutainment channel ZeeQ. Zee is a constant inventor in India's TV business. It launched India's first international channel, Zee UK, 17 years ago. It has seriously targeted the Indian diaspora, and thus wants to grow its global audience from 650 million, including English, to a billion by 2017. Zee has a series of firsts to its credit. It launched the country's first satellite TV channel and the first channel for round-the-clock-news. The broadcaster offers channels for the Middle East and Russia, two large markets with growth potential but underdeveloped domestic production. For this global expansion Zee can heavily rely on dubbed content from its large library, as well as acquired content.

India's television industry has gone through a revolution since reforms started in the early 1990s. Back then, Indians only had access to the staid state-run network Doordarshan. Now, there are at least 300 channels available via cable, together with around 30 news channels broadcasting in almost all 22 official languages.

There are a couple of important trends in India's media landscape that Western managers need to be aware of. First, the reach and influence of business publications is growing, to a certain extent supported by the entry of global media brands. Now there are six business dailies, six business TV channels and over a dozen magazines in this segment. As a result, the content is getting richer and more diverse. The editorial space is no longer reserved for corporate news, the stock market and government policies. It is also dedicating more space and attention to lifestyle, leisure, health, HR and global issues. For international brands, this offers better opportunities to position themselves. Second, the number of regional language TV stations and newspapers is growing rapidly. This offers more opportunities and channels to target specific audiences and better tailor regional campaigns in this highly diverse country. Third, readers and audiences in India are becoming more demanding. The time when everything new was printed is over. Along with providing the contents about your brands, you also need to explain why it is relevant in the context of India and its regional consumers. And finally, since lifestyle news and leisure reporting are on the advance, there is a growing opportunity to promote luxury and lifestyle brands. Many companies are trying to familiarize reporters with their products by organizing brand experience events or trips. And in some papers and TV channels, sponsored reports are the only option. The editorial space for these messages can be twice as expensive as advertisements of comparable size.

5.14 Mobile and Internet in India

India became the nation with the third largest Internet user base in the world in late 2012. In June 2013, it counted 190 million users. Tech analysts project this community to rise to around 350 million during the second half of the decade. That would catapult India to the No. 2 spot in global rankings. The most optimistic forecasts project growth of up to half a billion to the user base. The reason is simple. Indians have a strong affinity for mobile communication. The number of mobile subscribers reached almost 930 million in 2012. This means that three out of every four new Internet users in the country are expected to join via wireless devices. But wireless-based expansion usually is much stronger than what experts had forecast. Worldwide, around 15–20 % of users access the Internet with wireless technology. In India this figure is much higher. It was estimated to be more than 30 % in late 2012, and is forecasted to rise to 55 % soon.

With these numbers, the Internet has become a real factor in India's economy. The Internet's contribution to GDP is forecasted to expand from $30 billion to $100 billion by 2015. With these numbers, India is one of the three fastest-growing Internet markets worldwide, according to a recent study by Assocham and ComScore. Within the BRIC group, India is now the leader in Internet growth with an annual growth rate of around 40 %. The country has the youngest online demographic globally, with three out of every four users between the ages of 15 and 34. The fastest-growing segment online are users between the ages of 15 and 24. The female population in India accounts for almost 40 %. The top five usage categories accessed online are social networking sites, portals, search engines, entertainment and news websites.

With the online community set to triple within a couple of years—and with a third of "smart shoppers" proved to be engaged with digital tools like social media and blogging—international brands can profit from an enhanced presence in India's Internet. More than that: The country is clearly a trailblazer in the mobile market, making it an ideal testing ground for new ideas and strategies that can later be exported to other emerging markets. When Mobext India, the mobile marketing network of Havas Digital, carried out a global study on how consumers use their Internet devices, they found that for 80 % of them, mobile is the primary device, and that 28 % of mobile users had shopped on their device during the past 30 days. Almost half of all Asian advertisers expect mobile to become as important as TV within the next 2 or 3 years. Many of those who are using mobile devices have never accessed the Internet from a desktop, and if so, may never go back. A study by Opera Software titled "Mobile Internet in India" found that 49 % of those who use mobile Internet either never, or infrequently, use the desktop Internet in India.

This massive surge in wireless usage is mainly a result of the huge size of the country. But it is also due to the availability of innovative data packages and Internet surfing plans.

Most of the major mobile operators in India—among them Aircel, Airtel, Vodafone and Reliance Communications—offer unlimited data packages for less than $2 a month. Operators have also launched packages for daily or weekly use or for the access of particular websites. The rapid expansion of mobile usage allows rural India to increasingly take part in the boom. According to industry estimates, the metros contribute around 40 % of the total mobile web traffic in India, while 60 % comes from non-metros. In terms of desktops, the Internet revolution still has to reach the countryside. A National Sample Survey Organization (NSSO) report found in 2012 that in rural India only 3.5 out of 1000 households had access to Internet services at home. The accelerating growth of mobile Internet usage in rural India is helped by a rising numbers of services that make content available in local languages such as Telugu, Kannada or Malayalam.

Facebook was able to almost double its Indian user base to 82 million from 2011 to 2013. Facebook, which initially was slow to cash in on growth in the mobile advertising business, is now finding a critical testing ground in India. The country may even become central to the future of the world's leading online platform. Not only is India becoming one of Facebook's top global markets. The company can also gather experience in how it approaches millions of new users who come online for the first time, using low-tech mobile devices. The lessons learned in India could help in entering other emerging markets like Brazil, parts of Africa, or Southeast Asia. In India, Internet users are not only comparatively young but also very active and enthusiastic. According to TNS Digital Life, the largest global study into people's attitudes and behaviors online, 43 % of them are categorized as "highly engaged."

With such a rapid development, a growing number of firms are trying to tap India's Internet and social media potential. Merely leveraging social media websites is not enough anymore. In order to better reach their targeted audiences, a rising number of companies are adopting whole business models designed around social media. Reebok, Fastrack (India's largest youth fashion brand), Idea Cellular and ArtistAloud are credited for coming up with excellent campaigns, platform use or strategic programming. Maruti Suzuki, for example, went to great lengths to launch its all new Maruti Swift via a Facebook page even before the vehicle was unveiled formally in a press conference. India's cultural context strongly supports the use of social websites according to the latest TNS study on the BRICs because teens spend most of their time at home or at school, instead of hanging out: "Teenagers, trapped within the confines of the home, use technology not just to connect with the outside world but to zone out of their immediate surroundings. Teens in India rarely have their own rooms to withdraw into—for privacy, to sulk, or to dream. However a simple combination of a phone and earphones can turn any corner of a crowded house into a private zone" (TNS 2010).

If it is not handled well, a social media campaign can quickly turn into a nightmare. Volkswagen found itself in the center of a social media storm after a tweet that was allegedly posted (and then promptly deleted) on the company's official twitter feed that compared VW's "vibrating" print ad to a female pleasure device. A legion of angry and irate consumers was swiftly tweeting back to vent their outrage and criticism. The incident shows how critical online consumers have become, how quickly they respond and how active they can be. This is a risk—but it can also be turned into a huge advantage.

In August 2012, "media2win" published a list of the top brands in the social media sphere, based on the number of likes and post counts. Tata Docomo, MTV Roadies Media, Fastrack and Kingfisher alcohol made it to the top of the ranking. In a brand equity ranking by NM Incite, based on second quarter 2012 results, Maruti Suzuki took the lead thanks to its strong performance across social media channels and networks. The company is able to create high volumes of conversation on auto forums, including boards, blogs and sites like Facebook, YouTube and Twitter. Samsung Mobile was second. In a separate survey in 2012, MSL Group India, the nation's largest PR network, offered some insights into how Indian bloggers think with regard to brands, technology and the medium. Among the most interesting findings were the following: 44 % of the community are tech-bloggers, while the remaining 56 % non-tech bloggers focus mostly on fashion, food and lifestyle. Facebook and Twitter are emerging as their most preferred social platforms for connecting with other bloggers. Facebook, followed by Twitter and Google, is where they receive the most views for their blog posts. Flipkart is the top e-commerce site for all bloggers, while film actor, director and producer Aamir Khan is the most favorite brand ambassador for Indian bloggers, followed by Amitabh Bachchan.

Indian and international brands have already launched a series of powerful online campaigns. Reebok started the "Butt Revolution" campaign back in 2010. On an interactive page it offered users to get answers to their queries about fitness from official Reebok trainers. The campaign catapulted the sales of their EasyTone shoes, mainly through the participation of women aged 18–24. In the same year, Hippo Chips (Parle Agro), a baked wheat snack food brand, launched a Twitter campaign that asked its customers to point out the availability of the product on retail shelves across the country. During peak times the number of people tracking Hippo stocks on Twitter equaled almost half of Parle Agro's food sales team. Sales jumped 76 % in the wake of this promotion.

Some online retailers are going to great lengths to click with women, who are expected to be the next big wave in Indian Internet retail. Some retailers try to attract female customers with niche-offerings. Others launch women-only platforms. The market for non-store retailing is estimated at $3.2 billion. But the sector is growing more than 20 % annually. It certainly plays into the hands of e-commerce that India does not have a very high penetration of malls yet. Men account for roughly 60 % of the business, but sales to women are growing substantially. Some of the leading platforms are called Myntra.com, Fashion&You, and Zovi.com. Zovi was the first to introduce a new feature called ZoviEye. The interactive webcam application makes it possible for women to see themselves in their desired apparel. For brick and mortar retailers coming to India, this means some more time at the drawing board to create an integrated strategy that links traditional promotions with digital commerce platforms.

The rapid advance of the Internet is already changing consumer behavior in India. In a study conducted by Nielsen, Google found that seven out of ten buyers know the exact brand and model they want to purchase through the help of online research, before they enter the store. This finding illustrates that the Internet is not only helping to create awareness for brands. It is also substantially impacting on decisions for planned purchases. No wonder that online shopping in India reached a volume of $16 billion in 2013. That still represents only 2 % of total retail sales, compared to 4 % in Brazil. But it is only the beginning. Just 10 million of the country's Internet users are so far engaging in e-commerce. Another 75 million are ready to join in, according to a study by the Internet & Mobile Association of India. Up to 80 % of all current Internet users in India are said to plan online shopping in the near future. Since 2005, according to McKinsey, the country's e-commerce market has grown an average of 34 % a year. Travel is currently by far the leading online advertiser. Almost a third of India's travel is already booked online. Consumer durables like air conditioners, refrigerators and TV sets are the second most popular segment.

References

ABB. (2015). Photo taken by ABB corporate communications at the Hannover Fair in 2015.

Agence France Press. (2012, July 4). *What downturn? Ask India's super-rich*.

Aiyar, S. A. A. (2011, July 20). *The elephant that became a tiger*. Cato Institute. 20 Years of Economic Reform in India Development Policy Analysis No. 13.

Asian Development Bank. (2001, November). *India's economic reforms*.

Bloom, D.E., Canning, D., & Rosenberg, L. (2011, February). *Demographic change and economic growth in South Asia*. PGDA Working Paper No. 67.

Economic Times. (2012a, May 20). *Delhi and Mumbai are still the key markets for luxury goods in India*.

Economic Times. (2012b, September 11). *India's 1/5th urban shoppers regular visitor to modern trade*.

Economic Times. (2012c, March 15). *Interview with Zagha, R*.

Economist. (2012, November 10). *Liberal worries*.

Ernst & Young. (2010, June 1). Auto-track: India's small dream car. Accessed October 26, 2014, from http://s3.amazonaws.com/caclubindia/cdn/forum/files/51_auto_track_june_2010.pdf

globeone BRIC Branding Survey—India Edition. (2012). Accessed March 25, 2015, from http://globe-one.com/representative-survey-of-the-image-of-german-brands-in-india-excellent-reputation-unexploited-potential-1780/

IMA CFO-Connect. (2011). *What will drive India's consumer markets?* Accessed October 26, 2014, from http://www.cfo-connect.com/title_detail.asp?art_id=970&cat_id=10

IMF Survey Magazine. (2012, April 17). *India's growth slowdown calls for reinvigorated reforms*.

Mohanty, D. (2012, August 28). *India's post-crisis macroeconomic challenges*. Reserve Bank of India.

Nielsen. (2012). Demand spotting: The rise of the Indian small town. Accessed October 26, 2014, from http://www.nielsen.com/content/dam/corporate/india/reports/2012/Featured%20Insights_Demand%20Spotting-The%20Rise%20of%20the%20Indian%20Small%20Town.pdf

Pandey, S., & Dixit, P. K. (2011). The influence of culture on consumer behavior. *International Journal of Business & Management Research, 1*(1), 21–28.

Penn Schoen Berland. (2011). The PSB 50. Accessed October 26, 2014, from http://www.wpp.com/wpp/press/2011/apr/12/tata-group-ratan-tata-top-the/

Pew Research Center. (2012, September 10). *Deepening economic doubts in India*.

Reuters. (2012, September 18). *India's perfume capital Kannauj threatened by modern fragrance makers*.

Schaffmeister, N. (2015). Photo of the new "Make in India" campaign taken at Berlin Central train station in 2015.

South China Morning Post. (2012, September 6). *Last frontier of luxury retail: Small-town India*.

Tata Consultancy Services. (2012, March). *India boarding*.

The German Marshall Fund of the United States. (2011, May). *The politics of India's unfinished economic reforms*.

The Luxe Flux. (2012, September 18). *The Indian luxury market is going through a shake-up. Why?*

The World Bank. (2011, August). *Is South Asia ready for the big leap?*

Times of India. (2012, September 7). *Luxury is long-term, says Louis Vuitton's Carcelle*.

TLG Communications. (2011, June). *Index of thought leaders*.

TNS. (2010). *Discover BRIC*.

Wall Street Journal, India Realtime. (2012, August 26). *Playboy pin-up Sherlyn Chopra and India's changing morals*.

6 Russia: A Power Beyond Raw Materials

6.1 Introduction

When prominent French actor Gérard Depardieu was granted Russian citizenship in January 2013, he fled France's temporary new 75 % tax on individual income in excess of 1 million euros and exchanged it for Russia's 13 % personal income tax. For many newspapers in Europe, the whole story was about the discontent of wealthy French citizens with President Francois Hollande's new tax regime. In fact, Depardieu's departure to Russia highlighted the growing international competition between national tax regimes. More than that, it also highlighted how much Russia has changed since it began its dramatic transition from being an isolated, centrally planned economy to becoming a more market-based, globally integrated economy which became the youngest member of the World Trade Organization at the end of 2012. In the course of this transition, Russia became the ninth largest economy in the world, behind Italy and just ahead of fellow BRIC member India, in 2011. The country's GDP now stands at more than $1.85 trillion.

During the past decade, its GDP has grown by an average of 4.9 % per year, according to the Doing Business in Russia report (The World Bank 2012). But from early 2014, growth numbers sharply decreased under the influence of the Ukraine crisis, as well as a result of a slowing world economy and decreasing oil prices. By the end of 2014, Russia's economy had stalled, due to Western sanctions and a sharp oil price drop of almost 30 %. In its October 2014 "Russia Overview" the World Bank stated that "consumer and business sentiments were already weak in 2013 due to lingering structural problems and contributed to the wait-and-see attitudes of households and companies and leading to a slowdown of the Russian economy to 1.3 % from 3.4 % in 2012. In the summer of 2014 the IMF cut its growth forecast for Russia, shortly after the World Economic Forum had warned that "the Russian economy continues to face many deeply rooted challenges that will have to be addressed for the country to strengthen its competitiveness."

However, as a result of the rapid rise and its increasing integration into the world economy in the years before 2014, Russia has gained a great deal of status and

N. Schaffmeister, *Brand Building and Marketing in Key Emerging Markets*,
Management for Professionals, DOI 10.1007/978-3-319-19482-0_6

influence. It has become the largest European car market and one of the leading energy suppliers on the planet. In January 2013, a leading U.S. periodical, *Foreign Policy*, named Russian President Vladimir Putin as the most powerful person in the world. Putin was followed by then U.S. Federal Reserve Chairman Ben Bernanke and German Chancellor Angela Merkel on *Foreign Policy*'s list. In October 2012, a well-known Russian energy company had already made it to the top of the corporate world in its industry. With the $61 billion purchase of the oil company TNK-BP from private investors, state-controlled Rosneft—which made the purchase—became the world's largest publicly traded oil company, with 1.7 times the production of Exxon Mobil. And in a development symbolic of Russia's transition from a command economy to a more market-oriented consumer economy, the country built the world's largest shopping mall north of the Arctic Circle, the Murmansk Mall. It opened in 2014 and features four floors of shops, restaurants and cinemas. Brand stores like Zara, H&M and Pull&Bear are flanked by IMAX theatres, food courts and large playgrounds.

Russia is not only in the midst of a fundamental economic transition. It has also started to rearrange its position in the global economy. Prime Minister Dmitry Medvedev declared in January 2013 that he sees participation in the BRICS grouping as the most promising route to integrating his country into the global economy. These words were followed up with a $400 billion gas supply deal between Russia and China in May 2014. In order to illustrate his vision, Medvedev quoted the first ruler of the People's Republic of China, Mao Zedong, who once famously said, "When the wind of change blows, build a windmill instead of finding a place to hide." As a country with a population of 143 million and 14 neighboring countries—among them China, Finland, Korea, Mongolia and Norway—Russia has indeed nowhere to hide. Only 86 km of the Bering Strait separate Russia from its 15th neighbor, the United States. Geographically, Russia is the largest country in the world. It spans nine time zones. Europe occupies only about one quarter of its territory. Russia's coastline is more than 37,000 km long, with the Arctic, the Atlantic and the Pacific touching its shores.

Russia is the most prosperous of the BRIC countries. In terms of electric supply, food production and overall living standards, it is closer to Western norms than it is to the other BRICs. The GDP per capita reached $18,200 (PPP) in 2013, according to the CIA World Factbook. Russia's capital is Moscow. Its official language is Russian, with over 100 minority languages spoken. Around one out of seven Russians can understand or speak foreign languages. English is increasingly encouraged at Russian schools. The Ruble is the country's currency. Russians are the largest ethnic group, at 81 % of the population. Tatars account for 3.8 %, Ukrainians for 3.0 %. Three-quarters of Russians consider themselves Russian Orthodox, 19 % are Muslim.

One of the country's greatest strengths is its education system; an estimated 98 % of the population over the age of 15 can read and write. With competitive education levels, as well as almost ten hospital beds and more than four physicians per 1000 people, Russia exhibits social statistics that rival the developed world. But much of that is due to social engineering under the Soviet Union. Since its disintegration, a lot of institutions—as well as the overall infrastructure—have suffered. And now income inequality is rising. Health care is basically free, but adequate treatment depends very much on wealth. There is a great disparity between urban and rural areas. Russia's population is shrinking at a rate of around half a percent per year. This decline is forecast to continue.

Some experts are expecting the economically active population to decrease 13 % by 2025. This is in stark contrast to other BRIC countries like India and Brazil. And it is one of Russia's biggest roadblocks to sustainable growth. Russia is also considered to be a polarized society, with a small number of high-net-worth individuals and a relatively small but growing middle class. Russia has one of the largest populations of billionaires on the globe. But if you look at the international rankings of millionaires, the country is not even among the top 15. Russia was the only country among the BRICs to see a decline in its number of millionaires between 2007 and 2011. To be fair, the main reason was the depreciation of the Russian Ruble, which lowered the dollar value of Russian wealth. However, the uneven distribution of wealth is extreme, even though there is a mass of people who are struggling to move up the social and income ladders. One of the reasons: Russia's economy is very much geared towards its massive wealth in energy and minerals. This sector is controlled by a small number of companies. The large natural resource base includes major deposits of oil, natural gas, coal, rare earth elements and timber. Almost three-quarters of the population is urban, representing 85 % of the purchasing power. And almost 60 % of the population is of working age. The labor force—75.3 million in 2013—is relatively well educated.

There is probably no other large country—except for China—that has undergone such dramatic changes over the past two decades as Russia. In an article titled "Will the Russian Empire Be Reborn?," Cesar Chelala, the international correspondent for *The Middle East Times*, analyzed Russia's transition and stated that "the years of communism have left their mark on the character of many Russians; they seem introspective and disillusioned." In fact, during the years of the Soviet Union, the basic needs of Russians were covered, and there was significant pressure on them not to be different or creative. However, the last couple of years—until the Ukraine crisis and related sanctions started to challenge Russian economy—have delivered much better growth rates, due to rising commodity prices. And growing attention of foreign investors as well as the accession to the WTO had helped not only to forge more of a national identity but also to boost pride.

Early on during the current decade, Russia has passed a number of remarkable milestones. In 2011, it became the world's leading oil producer, surpassing Saudi Arabia. Both countries were surpassed by the U.S. in 2013 when it became the world's top producer following its fracking boom. Russia is the second-largest producer of natural gas. Russia holds the largest known natural gas reserves, the second-largest coal reserves and the eighth-largest reserves of crude oil. The new WTO member is the third-largest exporter of both steel and primary aluminum. The country's strong reliance on commodity exports makes it not only vulnerable to boom and bust cycles in the energy sector, it also exposes it to the so-called "Dutch disease." We will discuss the role of the commodity sector later in this chapter. One important fact should be emphasized here now. There is an increasing consensus within the Russian leadership about the negative effects and long-term consequences of an overdependence on oil. These concerns were amplified when oil prices started to fall in the autumn of 2014. A rethinking of the national priorities, relying less on energy while improving social conditions, is underway. Since 2007, Russia's government has tried hard to reduce this dependency and built up its technology sectors, but the results have been mixed at best.

Due to recent growth and to rapid progress in some of its biggest cities, Russia is experiencing massive immigration from the former Soviet republics, as well as from China. Domestic migration is increasing as well, with people mostly from the Caucasus flocking to large Russian cities and their surrounding areas. Russia is highly urbanized. According to the 2010 national census, the share of the urban population in the country amounted to 73.7 %. Worldwide, urbanization reached a threshold of 50 % only in 2008. Russia recorded this level as early as the 1950s. During the Soviet era, urbanization and the location of large economic and population centers was as much driven by strategic considerations as by economic reasoning, sometimes even more so. The result is that Russia, after the breakup of the Soviet Union, inherited a number of poorly located cities. Many of them lacked the infrastructure and the economic capital they needed to compete in the global economy. More than that, some 40 % of Russian cities were based on a single industry.

However, there is also considerable outward migration. Many young people are migrating to either Europe or the United States. An estimated 1.3 million Russians left the country over the last decade. This bloodletting is combined with low fertility rates, capital flight and a net mortality trend. The country is constantly registering more deaths than births. This all leads to steady depopulation. Between 1993 and 2010, the population fell from 149 million to 142 million. Vladimir Putin is trying to reverse this trend by offering priority housing and by handing out special allowances of roughly $250 per month per child to families with more than three children. Another initiative is to improve the ailing health system, which is burdened by high rates of smoking and alcohol consumption. Russia is the world's second-largest tobacco market after China. Russia's membership in the BRIC club offers a good opportunity to tap into the experience which Brazil, India and China have gained in terms of combining sustainable reforms with equitable wealth distribution.

Russia's infrastructure is regarded as extensive but outdated and in need of heavy investment. One of the main reasons is a lack of private investors. In the U.S. and in many European countries, infrastructure investment accounts for close to 6 % of GDP. In Russia, that rate stood at around 3.5 % at the end of the 1990s. It rose quickly to 7.4 % of GDP by 2010, but has since stagnated under rising fiscal pressure due to falling oil prices. A lot of the investment dollars get lost in bureaucracy and corruption. Russia's news agency, RIA Novosti, estimated that one mile of road construction in the country costs three times as much as a mile of road in the U.S. The pace of construction of new roads cannot keep up with the rapid motorization of the country. A report by Macquarie, a global investment bank, appraised the increase in Russia's road network at only 1 % between 1995 and 2008. The number of passenger vehicles on Russia's roads grew by 125 % during that period.

The bulk of the infrastructure was inherited from the Soviet Union, but insufficient state investment, corruption and harsh climatic conditions have taken a heavy toll on roads, railways, power plants and bridges. Russia has the second-lowest score among 14 countries for the uneven distribution of its physical infrastructure, according to the "Competitive Alternatives 2012" report released by KPMG. In eastern Russia and along the Pacific Ocean the capacity of seaports is struggling to keep up with rising demand. The ports need to be better integrated into the railway system, and much of the freight needs to be shipped from West to East and vice versa. The total network of roads, meanwhile, shrank from 940,000 km in 1995 to 871,000. More than 80 % of the roads have a hard surface. But they are often not in good condition. Speed limits and weight restrictions are the obvious result. They cause traffic jams and delays. The Russian railway system accounts for around 75 % of all revenue in the freight industry. It also has massive importance for the transportation of commodities. But a good part of the system needs modernization.

6.2 Most Important Regions and Key Cities

Russia displays a high level of regional diversity. The wealthiest regions are Moscow, St. Petersburg, Perm (Volga), Samara (Ural), and the Republic of Tatarstan. Moscow is the unchallenged number 1, followed by St. Petersburg and regions that have rich natural resources. The World Bank's "Doing Business in Russia" survey describes "significant differences between regions." More than 80 % of the population lives in the Western part of the country, and nearly 73 % live in cities. Economic activity is highly concentrated as well. Moscow has the country's highest gross regional product, more than five times that of St. Petersburg, which is second. According to the World Bank, Muscovites enjoy an income per capita a staggering two-and-a-half times the national average. Much of the regional disparities, though, are attributable to natural resources.

If you distinguish Russia's 83 regions according to retail trade volume, the leading places are Moscow, St. Petersburg, Samara, Krasnodar Krai (Southern Federal District), Tyumen (Ural), and Svedrlovsk (Ural). Tyumen is one of the major oil and gas resource bases. Many foreign firms start their market expansion into Russia in Moscow or St. Petersburg. In many large cities—except for Moscow and St. Petersburg—there is still a lower level of competition, which offers opportunities for the introduction of international brands. The diversity of these regions is so great that it is hard to portray all of them in just a few pages. They reach from the automobile cluster in the Volga region, to Ivanovo and its textiles, to Kostroma and Kirov—which specialize in wood and paper, to Perm and Tatarstan, engaged in the chemicals industry, and Samara with its vehicle manufacturing. And one must not forget the "Silicon Taiga" in Akademgorodok near Novosibirsk. This technology hub has its roots in the 1950s. That was when the Soviet Academy of

Sciences founded this educational and scientific center, together with dozens of research institutes and the Novosibirsk State University.

After the collapse of the Soviet Union, government investment in the Silicon Taiga declined sharply, and many scientists decided to leave the region or to stay and establish their own businesses. Many of them are software-related IT companies that have grown into successful software providers. Novosibirsk, the 1940s "Chicago of Siberia," is still a major industrial center and is Russia's third most populous city. While St. Petersburg and Yekaterinburg saw the fastest growth of ultra-rich Russians in recent years, Novosibirsk is expected to surpass them in producing even more ultra-rich people until 2020. Russia's East, mainly Siberia, will profit greatly in the decades to come from rapid growth in Asia. Some of the regional hubs of mineral wealth seem to be in the middle of nowhere. Mirny, located in the permafrost of Yakutiya, has diamonds. Sugurt in the Western Siberian tundra is rich in oil. Norilsk, on the frozen northern coast, is rich in nickel. For decades, Norilsk was a secretive city, closed to foreigners, only to be opened up in the late 1990s because of its location in a strategic region. Norilsk was once ringed by silos containing intercontinental ballistic missiles.

It is interesting to note a report by the European Bank for Reconstruction and Development (EBRD) titled "Diversifying Russia" (EBRD 2012). The paper shows that "the number of regions in which more than 10 % of the workforce is employed in higher-value-added services (especially trade) has trebled over the past decade." This partly contradicts conclusions in a number of other reports that a rising share of resources in Russia's export mix is leading to a loss of competitiveness in manufacturing and is slowing down the country's efforts to place more emphasis on value-added and high-tech production. According to the EBRD report, the share of higher technology products in Russia's total manufacturing exports has reached 20 %. But the country has still a long way to go. Up to now, only a very low 10 % of the workforce employed in manufacturing is not directly related to oil, gas or other natural resources in an average Russian region.

Very interesting in this context is a paper from Natalia Zubarevich, the director of the regional program of the Independent Institute for Social Policy in Moscow. Zubarevich suggests a rethinking of the post-Soviet map. She recommends not looking at Russia in a traditional way by distinguishing it according to different regions. Instead of a geographic approach, she writes, it is more helpful to break down the country into just four different spheres, characterized by common socio-economic features and city sizes (Zubarevich 2012). According to this segmentation, "Russia No. 1" is a land of post-industrial cities. There are 73 cities with a population of more than 250,000 each, and just 14 cities with populations of around a million or more. More than one in five Russians lives in these cities. And one in nine lives in Moscow or St. Petersburg. According to Zubarevich, these two cities are "at the heart of the post-industrial economy, with a high level of economic development." Spending power—$47,000 in Moscow, and $22,000 in St. Petersburg—is comparable with the developed world. In these two leading Russian metropolises, you find the best-educated population, the most diverse labor market and the highest-paid jobs. Salaries in Moscow are almost double the

Russian average. The capital accounts for about 20 % of Russia's GDP, while it only represents 7 % of the whole population. Among the other million-plus cities in Russia No. 1, Ufa, Perm, Omsk, Chelyabinsk and Volgograd remain heavily dependent on large-scale heavy industry, while Yekaterinburg, Novosibirsk, Rostov-on-Don and Kazan are making the most progress. They are on the forefront of reinventing themselves as major service industry centers, after having lost their Soviet roles as hubs of heavy engineering in the 1990s.

The common characteristics of these cities, according to Zubarevich: The proportion of white collar workers has risen and there are more medium-sized firms. Most of all, these cities are first in line to adopt the capital's consumer lifestyles. And they are the epicenters of the new middle class. If cities with more than 500,000 inhabitants are included in this "First Russia," its share of the total population would rise to 30 %. While Russia No. 1 is educated, white collar and increasingly middle class, Russia No. 2 mainly consists of blue collar workers in industrial towns with 25,000–250,000 inhabitants. Not all of these towns have preserved their industrial profile from Soviet times, says Zubarevich, but they have retained a "strong Soviet ethos and way of life."

In this socioeconomic sphere, there are not many startup businesses or small and medium-sized enterprises, because there is "either low consumer spending power or a high level of cronyism." According to Zubarevich, over 25 % of Russia's population lives in this "Second Russia." It is a geographically dispersed grouping of more than 330 towns and semi-urban villages. Many of these towns, though, are facing some promising prospects, especially when they are situated along major traffic arteries or close to the leading metro cities. One of the examples offered in Zubarevich's paper are the towns along the Moscow-Minsk motorway, which functions as a major route to Europe. Proximity to this road comes with the chance for transformation into a logistics and handling center for the greater Moscow region.

Russia No. 3, a vast territory of peripheral villages and small towns, is home to around a third of Russia's population. They are scattered all across the vast country, with the highest concentrations in central Russia and the Northwest as well as industrial regions in the Urals and Siberia. In most parts of this Russian sphere, people are mostly attached to their fertile land. Some of them, especially the younger ones, are either leaving to search for jobs in nearby towns, while others find work in agribusinesses, which are expanding in profitable, non-labor-intensive crops like grain and sunflowers for oil. Since many of the young have left, the ratio of elderly people is rather high. Russia's new middle class does not include a lot of people from these towns and villages. Russia No. 4, finally, spans the less developed republics of the northern Caucasus and parts of southern Siberia. Around 6 % of the population lives here and there is hardly any industry. According to Zubarevich, this part of Russia is "most corrupt, with fierce fighting between clans for power and resources and numerous ethnic and religious conflicts." Zubarevich's conclusion sounds promising for international corporations with ambitions to expand in Russia: "A map organized by population rather than territory would show our government that our country has a pretty large proportion of educated, mobile and well-paid city-dwellers."

6.3 Positions in International Rankings

Russia has been struggling to defend some of its key positions in global rankings in recent years. The Global Competitive Index 2014, published by the World Economic Forum (WEF), ranks the country 53rd overall in its list of 144 nations. This is way behind China (28th) but clearly ahead of Brazil (57th) and India (71st). Without the severe consequences of the Ukraine conflict and the sanctions battle already visible and fully known, the WEF acknowledged "some improvements related to domestic competition, ICT use and business sophistication", but criticized Russia's inefficient institutional framework as well as corruption, favoritism and a very small SME sector.

According to the WEF, Russia's low level of competition is caused by inefficient antimonopoly policies, strong restrictions on trade and foreign ownership, as well as a lack of trust in the country's financial system. The result, says the WEF, is a less-than-optimal allocation of Russia's massive resources, which prevents higher rates of productivity in the economy. Since Russia's economy is approaching a more advanced stage of development, it faces even more challenges for its sustained progress, among them a lack of business sophistication and low rates of technological adoption. Among the strengths listed by the WEF are Russia's high level of educational enrollment, its "fairly good infrastructure and its large domestic market". But all these strengths will be tested and challenged in the years to come under rising fiscal pressure.

During the 10 years up to 2012, Russia's GDP has grown by an annual average of 4.9 %. During this period real disposable income doubled, and a middle class emerged, according to the World Bank. But in the wider context of the emerging market universe, Russia's growth doesn't look particularly fast-paced. "Despite the abundance of natural resources," states the World Bank, "Russia has not grown at the same pace as other large emerging economies. Over the past 20 years, China's GDP has increased by 10 % a year on average and India's by 6 %." The global financial crisis of 2008/2009 as well as the Ukraine crisis in 2014 drew attention to the fragility of Russia's growth model that is still mainly based on natural resources. Weak competition, poor investment and lack of innovation constrain growth. In addition, the tensions in the political relations between the western world and Russia that also encompass major trade sanctions constrain Russia's growth perspectives.

Government regulation and state intervention draw particular criticism from the World Bank. According to one of the organization's latest "Enterprise Surveys", Russian managers spend 20 % of their time dealing with regulations, more than twice as much as their peers in the 10 European Union emerging countries. The World Bank puts Russia in the bottom decile in terms of regulatory burdens and cites a weak institutional framework as a key obstacle to growth. Across a spectrum of ten important indicators, Russia, in 2012, ranked 120th of 183 economies in the ease of doing business. In 2013 it moved up eight places to number 112.

The World Bank recognizes that over the past 7 years, 163 economies have made their regulations friendlier for businesses, with Russia ranking among the 30 economies that improved the most. Among the Russian cities which are mentioned for improving their regulatory environment the most since 2008 are Irkutsk, Perm, Petrozavodsk, Rostov-on-Don, St. Petersburg, Tomsk and Voronzeh. St. Petersburg earns the gold medal for being the Russian city where it is the easiest to start a business. The quickest places to launch a business—with seven interactions required—are cities like Kirov, Murmansk, Perm and Stavropol. The time needed for starting a business ranges between 16 days in Kaliningrad and 33 days in Yekaterinburg.

Being part of the BRIC grouping will certainly do its part to make Russia more attractive, especially since foreign trade between emerging countries has now surpassed their exports to developed nations. According to the United Nations Conference on Trade and Development (UNCTAD) the FDI prospects for transitional economies are helped by the Russian Federation's WTO accession. The OECD concludes that in the Commonwealth of Independent States (CIS), consisting mostly of former Soviet republics, "resource-based economies benefited from continued natural-resource-seeking FDI. The Russian Federation continued to account for the lion's share of inward FDI to the region."

Room for improvement also remains for Russia's ranking in the Global Dynamism Index, which is published by advisory firm Grant Thornton International. In the 2012 edition of the index, Russia ranked just 43rd among 50 leading economies, which were compared based on such key areas as business operating environment, science and technology, and labor and human capital. The country's educational scores are significantly better in relative terms. In the PISA (Program for International Student Assessment) dataset, Russia ranks 38th among 65 countries surveyed. The OECD, which compiles the data for PISA, gives Russia consistently higher scores in mathematics than Brazil and most other emerging markets. In this category Russia's results are roughly comparable to those of the U.S. But they are significantly lower than those of Asian nations. This matches various reports that highlight the problems of Russian companies in finding workers with appropriate skill profiles. In the 2009 Business Environment and Enterprise Performance Survey, conducted by the EBRD, 45 % of expanding firms reported constraints on their growth from skill shortages. This sounds strange in a country which boasts nearly 3000 institutes of higher education for a population of 140 million. But the government has earmarked one-third of them as "inefficient" and wants to close them. "Things are more complicated than they might seem," writes Svetlana Smetanina for RIA Novosti. "Not a single educational facility in Russia has managed to break into the top 100 universities in the world. In the recently published QS World University Ranking 2012, Moscow State University came in at number 116, while St. Petersburg University was ranked 253" (Smetanina 2012).

Russia gets mixed reviews for its healthcare system. According to the OECD's "Health at a Glance 2013" report, total spending for this sector accounts for 6.2 %

of GDP. This compares to an OECD average of 9.3 %. The state is quickly withdrawing from its leading role in the healthcare system, reducing its share of funding from almost 71 % in 1997 to 62 %. This is now well below the OECD average of 72.2 %. In 2013 the Russian state cut its healthcare spending by another 8.7 %. Russians now have to pay for every service that is not part of the compulsory health insurance package. They have to pay for all medicines that are not considered vital as well. Due to heavy smoking and alcohol consumption, as well as environmental degradation, Russia has relatively high levels of mortality and a short life expectancy. It now stands at 69 years, 11 years below the OECD average (OECD 2013).

When it comes to innovation, Russia lags behind advanced economies and some other emerging markets. This is particularly true for private companies, where Russia only ranks 62nd out of 144 countries, according to the World Economic Forum's 2014–2015 Global competitiveness report. Innovation is held back not only by poor protection of intellectual property rights and the limited availability of finance, but also by limited investments in the ICT sector and by a skills gap and the low efficiency of public R&D. Russia spends just 1 % of its national income on R&D. This is well below the average for OECD countries. Three-quarters of all R&D is conducted by public institutions. Only 9 % of total R&D expenditures are made at the company level, resulting in weak company-led innovation. This explains the country's rather low ranking in the WEF index for innovation.

6.4 Strengths and Weaknesses: Russia's Competitiveness

President Vladimir Putin has set an extremely ambitious goal for his country to improve in competitiveness. By 2018 he wants to make Russia 20th out of 185 economies, up from 112th in early 2013. "Clearly, there's room for growth," confirms Augusto Lopez-Claros, the World Bank's director of global indicators and analysis. As such, Lopez-Claros is in charge of compiling the "Doing Business" rankings of the World Bank. He admits that Putin has set a goal that will be hard to achieve. The international investment community, which, judging from its engagement in Russia, seems to be convinced of the country's potential, has some reservations about whether the 20th place ranking can be achieved or not. When he was confronted with criticism about the pace of reform in his country during the Davos economic forum in January 2013, Prime Minister Medvedev promised that Russia would adopt solutions that his country can digest. He stressed that Russian authorities were trying to implement balanced reforms, rather than rushing into them.

The rather cautious pace of reforms is understandable, given Russia's recent volatile history. The more than two decades that have passed since Russia started to transition from a planned to a market economy were extremely volatile. During the 1990s, Russia had to deal with the aftermath of an economic collapse. In the last decade, the country enjoyed buoyant growth before it was struck violently by the financial and economic crisis of 2008 and 2009. When oil prices collapsed as a consequence of the crisis, Russia suffered a severe setback. Its financial sector was caught up in an environment of limited international liquidity. The crisis drew attention to the fact that Russia's economy is very fragile because it is so focused on its commodities sector. In a report on Russia's competitiveness that was published right after the peak of the crisis in 2011, the WEF, together with Russia's Sberbank and the Strategy Partners Group, highlighted several of the country's strengths and weaknesses. "There is no doubt that Russia is a country of great—and unrealized—potential," reads the report, stressing its well-educated population, the abundance of natural resources, and its favorable geographical location. The authors of the report wondered why the country—in spite of these strengths—"has not yet grown at the same pace as many other emerging markets."

One of the key reasons, according to the report, is productivity. Russia's GDP per capita achieved a relatively high growth rate of 5.5 % over the 2000–2009 period. But still the gap between Russia and the OECD remains sizeable, at 47 %. The WEF attributes the large difference in prosperity to stark differences in labor productivity. "Labor productivity in Russia is less than half the value achieved by workers in the OECD member states." Still, Russia has already made a lot of progress, particularly when it got rid of much of its surplus labor in the course of privatization after the collapse of the Soviet Union. Productivity overall is now higher than in India or China, according to the WEF; but due to higher Russian salaries, Russian workers produce only half the output of their Chinese or Indian peers for each dollar in wages.

Russia also suffers from a weak institutional framework. The WEF identifies five major economic policy challenges that need to be overcome in order to correct this weakness: weak enforcement of property rights, inefficient protection of land rights, corruption and state influence, an unfair judicial system, and costly impediments to businesses. Many companies complain about the prevalence of irregular payments and bribes, mostly in connection with the award of public contracts or the conduct of import and export operations. Education is another concern. "The past 5 years have seen a significant deterioration in the quality of education in Russia, while educational outcomes in India, China, and Brazil have been improving and OECD countries show stable results," states the WEF report. Moreover, the efficiency of Russian markets is impaired by the dominance of a few firms in many industries as well as serious barriers to trade and investment. "State involvement across many levels additionally stifles competition and dis-incentivizes investment. Russia remains largely closed to foreign participation because of its trade barriers, inefficient customs, and excessive restrictions on FDI." Administrative barriers also seem to constrain entrepreneurship in the country. In Russia, only around 5 % of companies are either new or have ceased market operations in a given year. In developed economies with efficient markets this ratio tends to be three to four times as high.

But still the WEF admits that Russia's "overall ranking conceals a number of pronounced strengths." Among them are the massive market size, a favorable geographical location, good primary education with high participation rates at higher levels, as well as a relatively high savings rates. In addition, Russia's large domestic market enables companies to easily realize economies of scale. The country is also more export-oriented than other countries of comparable size. In 2009, Russia's exports reached 28.2 % of GDP, while China—which is a strong exporter, given its size—achieved 27.9 %. Russia is quite close to a number of sizeable leading markets. It is neighbors with the EU, China, India, Japan and the United States. There is hardly any large emerging market that can claim such proximity to so many leading economies.

6.5 A Commodity-Driven Economy

Russia's massive endowment of a vast array of natural resources is possibly its most prominent feature. In terms of oil and gas, the country controls roughly 6 and 24 % of the world's resources. This makes Russia the leading exporter of mineral fuels, oils and distillation products, with a combined global market share of 10.6 %. The Russian Federation has even surpassed Saudi Arabia as the number-one oil-producing country in the world. It now supplies 12 % of global oil production. Rising oil prices in the aftermath of 2009 were a main driver behind the rapid recovery of the Russian economy. Income from the energy industry has left the country with large reserves and low public debt. But the costs are high. The dependence on fossil resources has reached alarming levels. Oil and gas exports account for roughly 70 % of total goods exports. And the revenues from these exports contribute around half of Russia's government budget. The dependence becomes more pronounced if you look at the energy sector's contribution to the labor market. Only around 10 % of total manufacturing employment is in sectors which are not directly related to oil.

There are several monuments to Russia's dependence on oil. Many of the country's youngest cities are among them. Names like Nefteyugansk or Noyabrsk may not be very familiar to foreigners. But they are sprawling developments based on the exploitation of natural resources. Noyabrsk is situated just 300 km north of Surgut, in the middle of the Siberian wilderness. It was founded by fortune-seekers who came by helicopter in 1975 to start developing the Kholmogorskoye oil field. In 1982 Noyabrsk received town status. Its population is very young, and it grew at an exponential rate over the last decade. Migrants came from all over the country, attracted by high salaries, five times the national average, by privileged living conditions, and by the pioneering spirit associated with being part of a growth story in a hostile environment, where the mercury can fall to negative 50 °C.

While growth stories like these are a magnet for qualified, pioneering young Russians who seek employment, they have become a headache for economists and the federal government. "It is becoming increasingly evident that the current growth model, which is centered on high oil prices and leveraged facilities, is no longer effective," says Herman Gref, chairman of the board and chief executive officer at Sberbank." Speaking at an investment conference in Moscow in October 2014, Gref launched a sharp attack on the economic policies of the Russian government. According to Gref, Russia cannot make full use of its huge potential and resources: “Unlike the other BRIC states, which are rich either in commodities or in a well-educated workforce, Russia is endowed with both. However, poor institutions, sluggish competition, and weak business competitiveness constrain the potential offered by these advantages.” The government is well aware of the possible consequences of such a heavy reliance on oil and gas. President Putin demanded that the country insulate its budget from recent energy price volatility. “The non-oil and gas revenue deficit is too large. The problems and challenges that we face are to stimulate economic growth, implement large-scale social programs, and at the same time insulate the budget from sharp energy price fluctuations,” said Putin in presenting Russia’s budget policy guidelines for 2013–2015.

The dangers for Russia’s economy and its future growth are obvious. The world’s largest energy exporter is becoming increasingly dependent on its natural resources. And so far it is not overly successful in preparing for an era after oil in 20 years, warns the European Bank for Reconstruction & Development (EBRD). Putin himself regularly warns that the current resource-based economy cannot deliver the growth rates of 5–6 % that the country needs over the next few decades. One of the answers for Russia’s government is to foster innovation and diversification. Initiatives like the ambitious “Rusnano,” which was founded to establish a high-tech niche in nanotechnology—and later on was transformed into a nationwide innovation framework—are designed to bring Russia forward, make it more competitive, and prepare it for the time after the carbon age. The “Skolkovo Innovation City” is one of the highest-profile projects within the wider campaign to promote innovation and drive diversification. The EBRD, however, is not satisfied with Russia’s achievements so far. Compared to other leading emerging markets, Russia “has failed to sustain large inflows of capital and much-needed FDI.” The range of exported goods where Russia enjoys a comparative advantage is limited.

The Development Bank lists a whole range of measures that have already been taken to improve Russia’s performance. In the first half of the last decade, the government passed a series of laws to limit the number of inspections undergone by firms. Licensing requirements were reduced. An independent competition authority was created. Small and medium-sized enterprises are now allowed to acquire state property. A long list of policy instruments was launched during the last 10 years, particularly in high-tech areas. Among them are technology parks and dedicated non-bank financing vehicles. However, the shift towards higher-value-added areas is slow, there has been a limited number of new entrants in innovative sectors, and the supply of high-quality public-sector research remains limited. The Kremlin continues to try its hardest. One of its main tools is the RVC, the state-backed Russian venture capital firm, which is investing massively in everything from online shopping to breast cancer screening tools, in order to start diversifying the economy.

The good news about the strong energy dependence of Russia’s economy is that growing income from the oil and gas sectors has boosted the country’s consumer market. Russian incomes have risen 16-fold over the last decade. The average monthly income rose from around $50 under Boris Yeltsin to about $800 under Putin. This has turned Russia into one of Europe’s largest consumer markets. In

2011, Russia became the continent's biggest market for milk and children's toys. By 2013, Russia rose to become the 11th-largest consumer market worldwide. "Rising wealth levels over the last decade have turned Russia into a middle-class country for arguably the first time in its history," said Citigroup's chief Russian strategist, Kingsmill Bond, in October 2012 (Russia Beyond the Headlines 2012). The decline in oil prices, starting in late 2014, has slowed this development down for the time being.

Still, investors are seeing future growth opportunities in the information technology and telecommunications sector. The Russian software development outsourcing industry in particular has become one of the fastest-growing markets in the world. Russia is already the third-largest destination for outsourcing software behind India and China. The government is supporting this development by increasing its IT investments to expand the necessary infrastructure. Russia's auto industry also holds potential. In 2012, Russia was on the verge of surpassing Germany as Europe's biggest car market. German luxury car brands witnessed high double-digit growth rates in Russia while other European markets were down in 2012.

For the last couple of years, automotive has been the key sector attracting FDI to the country, with more than 90 projects and a 12 % share of the total FDI inflow, followed by food, machinery and equipment, chemicals, mineral products and business services. Russians love foreign brands. And their excitement over European, American and Asian cars has by now lured almost all major international manufacturers to establish production bases in the country.

In late 2012, GM's president for Russia, James Bovenzi, declared, "GM values the Russian market, we see it as one of the big growing markets in the world" (Voice of America 2012). In a 2012 overview of the Russian automotive industry, consulting company Ernst & Young forecast "significant growth potential" for the Russian market, with the light vehicle density in the country at only 250 cars per 1000 people, compared to more than 500 cars in Germany (Ernst & Young 2012). The recent sanctions on Russian trade from the European Union and the U.S. have weakened the Russian car market. With consumer confidence suffering and increased import prices as a consequence of the falling Ruble, car sales suffered a temporary setback. Manufacturers are reporting a decline in car sales in Russia between 10 and 20 % in 2014. It looks like it might take a few years for the market to recover lost ground and return to the previous growth story.

6.6 Main Phases of Development

"In Russia you need to live a long time," one of the country's historians once said. That might not be true for the two decades after the break-up of the Soviet Union in 1991, when Mikhail Gorbachev was replaced by Russia's first president, Boris Yeltsin. Almost overnight, the world turned upside down. The government almost disappeared from many vital spheres of life. Gorbachev's policies of glasnost (openness) and perestroika (restructuring) had utterly failed. The attempt to modernize communism ended in complete disaster. By December 1991 the Soviet Union had splintered into Russia and 14 independent republics. Central planning was history and Russia started one of the most painful and volatile transitions of the last 20 years, with periods of permanent crisis and disintegration. This rollercoaster transition led the country from being a shrouded and secretive command economy to a still centralized nation with a massive role for the state in the economy, but with a growing set of market forces. In politics, Russia continued its tradition of one-man rule, giving the president, who symbolizes the country, enormous power. In economic terms, Russia hesitantly opened up, while regaining control of its vital energy industry and starting to integrate itself into the global economy, culminating in membership in the WTO at the end of 2012.

Obviously, Russians like to think and analyze in historic terms. Fyodor Lukyanov, the editor in chief of the journal "Russia in Global Affairs," who is also chairman of the Presidium of the Council on Foreign and Defense Policy, describes the years since 1991 as "three chapters of history." He is referring to the three presidents who have ruled in Russia since 1991: Boris Yeltsin, Vladimir Putin and Dmitry Medvedev.

Yeltsin, explains Lukyanov, "was acting in conditions of a permanent crisis, whether political or economic" (RIA Novosti 2011). Russia's first president had to tackle fundamental issues with great urgency. Political problems were the most immediate and pressing challenges: Russia as a successor to the Soviet Union, relations with newly independent neighbors, the country's legal status in the world. By the end of the 1990s, Russia had more or less achieved the goal of preserving its formal world status. But it needed to start backing this up economically. Yeltsin put together "shock therapy," with the aim of liberalizing prices and stabilizing the state budget. In late 1992, he started to distribute free vouchers in order to jumpstart mass privatization and garner support for his reforms. But the vouchers became a target of speculation. Russia's GDP fell by 50 %. Whole sectors of the economy were wiped out. Unemployment surged, incomes collapsed. In 1995, Yeltsin tried to launch a second wave of privatization. He offered shares in state enterprises in exchange for bank loans. A small circle of tycoons became rich in the process. They came to be known as "oligarchs." Among them were people like Boris Berezovsky, Mikhail Khodorkovsky and Roman Abramovich. But Yeltsin could not avert a crisis. Russia defaulted on its debt in 1998. Markets panicked. The Ruble collapsed. Russia's first try at capitalism had failed.

It was Putin's role, says Lukyanov, to convert Russia's aspirations into something real. He needed to overcome the economic shock of the Soviet Union's collapse, and he wanted to integrate the country into Western institutions, primarily in Europe. Putin assumed the presidency in 2000. His political and economic focus was summed up in a simple quote: "He who does not regret the breakup of the Soviet Union has no heart; he who wants to revive it in its previous form has no head." Putin pursued deeper integration with former Soviet states and, in the course of his first presidency, started to expand trade with Asian partners, especially China. Putin stabilized the economy and managed to put an end to the longstanding turmoil of the Yeltsin era of the 1990s. He improved the tax environment, reducing personal and income taxes while strengthening overall tax collection. The main tax rate on profits stands at 20 %. It is one of the lowest among the major economies. Growth returned in 1999 and continued through the 2000s until the financial crisis set in, pushing Russia backwards when oil prices collapsed.

Medvedev, who represents the third chapter in Lukyanov's analysis, ruled in an era of financial crisis and accelerating erosion of international institutions. During his time, Europe started to struggle with massive public debt problems and to fight the forces of possible disintegration. Russia started to lose some of its interest in a partnership with Europe. Medvedev's trips and outreach became more geographically diverse than his predecessors', reflecting the increasing shift of economic power from West to East. The current presidential term, says Lukyanov, "will decide Russia's destiny." What he means is that he expects to see the final collapse of inherited structures and the development of Russia's long-term orientation with regard to the global political and economic landscape. Being a member of the BRICS grouping will certainly help tilt this orientation more towards other emerging nations in the world.

6.7 Current Outlook

Winston Churchill once famously described Russia as "a riddle wrapped in a mystery inside an enigma." He went on to say, "But perhaps there is a key. That key is Russian national interest." Russia's interest is no secret though. The country wants to protect its own security interests while strengthen its international role and achieving a more sustainable growth. Prime Minister Medvedev announced in early 2013 that his government wants to raise the investment share of GDP from the current 20 to 25 %, by building up investment in transport and energy infrastructure and replacing outdated and ineffective facilities. But the economic sanctions against Russia have led to a significant re-evaluation of the country among business planners in large and small corporations. Big truck makers like MAN cut back their profit forecasts. In October 2014, Moody's cut back Russia's credit rating to the second-lowest investment grade. The decision was based on "Russia's increasingly subdued medium-term growth prospect." The country has started to pay a heavy price for the Ukrainian crisis. In its autumn 2014 "Russia Review", the World Bank saw the country "near stagnation" and warned of "substantial risks to Russia's medium-term outlook." Due to increased geopolitical risks, a new environment of policy uncertainty and international sanctions the World Bank expects additional economic impacts on economic activities.

The latest developments throw several forecasts for Russia's economy into doubt. Among them is the expectation that the number of well-off individuals (with monthly disposable incomes in excess of $1180) will more than treble by 2020. That would have translated into a rise from currently 20 million well-off people to roughly 66 million.

For the time being the consumption of the Russian middle-class is suffering from a weak Ruble, capital flight and slower growth. Previously, Russians had gone on a large spending spree. But they had only begun. Russian household debt, for example, was at 10 % of GDP, while reaching 75 % in Western Europe in 2012. Russia's admission to the WTO in August 2012 had given a boost to consumer confidence. The World Bank expected that WTO membership would boost Russia's annual GDP by $49 billion in the medium term, and by $160 billion in the long run, while improving wages by 4–5 %, with benefits for the vast majority of the population. This whole scenario is now on hold. And due to the crisis in Ukraine nobody is able to make useful predictions when Russia can return to the growth track.

Not everybody had been euphoric when Russia joined the WTO, though. The European Commissioner for Trade, Peter Mandelson, offered a cautiously optimistic scenario for the possible benefits of Russia's new membership. "For a system that has prioritized stability over the past decade," said Mandelson in November 2012, "the accession brings the promise of change. This is inevitably generating a sense of opportunity, but understandably also some apprehension" (Business New Europe 2012). Apprehension has since been replaced by serious concern.

But in the long run, Mandelson's assessment may still turn out to be true: "Overall, the change in trade profile is not large—especially when compared to the equivalent change in China's 2001 accession."

With the fiscal situation in Russia deteriorating due to falling oil prices, planned investments are in doubt as well. By 2015, the country wanted to spend $413 billion on the development of transportation infrastructure alone. Twenty-six additional nuclear power plants are planned or under construction in order to increase electricity production by two-thirds by 2020. Putin signed an executive order on Russia's long-term economic policy targets in May 2012. It envisions an increase in fixed investment from around 22 to 27 % of GDP by 2017. During that period the share of high-technology and science-intensive sectors is targeted to grow from below 9 to 11 % of GDP. In its paper on "The World in 2050," PricewaterhouseCoopers sees a chance for Russia to overtake Germany and become the largest European economy before 2020 in terms of purchasing power parity and at market exchange rates by around 2035 (PricewaterhouseCoopers 2013). But all of that was forecast before the Ukraine conflict threw Russia's economy off its rails.

6.8 Russian Brands

What is the most famous Russian brand? Is it the Kalashnikov rifle? Is it Smirnoff, the largest vodka brand in the world? Is it an energy giant like Gazprom or Rosneft? Is it Sberbank, with its rapidly growing financial footprint? Or is it a "people brand" like tennis celebrity Maria Sharapova, chess champion Garry Kasparov or opera singer Anna Netrebko? The honest answer: It's hard to tell without a survey—because there are quite a few famous and popular Russian brands. And very often, when people in the West think about Russian brands, it might not even be a commercialized brand that comes to their minds, but rather symbols that are related to the image of Russia, like matryoshka dolls. So far, fairly few Russian brands have become famous outside of the country. But the fact is that, on the domestic market, there is a growing number of success stories that are likely to translate into global brands in the not-so-distant future.

They are thriving because the growing middle class creates enough demand for a lucrative market, but also because the government's privatization policy accelerates the emphasis on brands and leads to a rising number of companies that are going public. In order to attract enough investment from shareholders they need to raise their profiles quickly and come up with a convincing brand story.

Examples of the growing number of initial public offerings (IPOs) are Russia's state-owned and second-largest bank, VTB, which completed an IPO in May 2011. A year earlier, oil and gas giant Rosneft had already gone public. Some of the rising domestic brand stars have become so successful and promising in the eyes of global competitors that they were bought up, just to make sure that the local competition does not become too strong before the multinational big shots come in. Unilever acquired Concern Kalina, a Russian cosmetics producer. PepsiCo bought Russian juice and dairy group Wim-Bill-Dann. These acquisitions also highlight how important it is to build on local roots and to gain access to intimate premium market knowledge.

Sberbank rose to become the most valuable Russian brand in 2012, when Millward Brown Optimor published its seventh list of the most valuable global brands. At $10.6 billion, Sberbank was the most valuable Russian entry in the ranking. Only a few months earlier, in February 2012, Sberbank was ranked second in terms of 10-year share returns, according to The Economist magazine. Apple was the only company with better performance in The Economist's list. Sberbank holds about a quarter of all Russian banking assets. It employs around 240,000 people. It has recently invested heavily in the CIS states and in Eastern Europe. Sberbank—because of its government backing—profited from the financial crisis. People did not lose confidence in the bank and brought their money to open accounts.

In its "Ru.Brand" 2010 edition, consulting company MPP listed telecoms company Beeline, competitor MTC, and beer producer Baltika as the three leading Russian brands among the top 100. The top ten featured four alcohol brands, three telecoms, two food companies and one energy company. The leading food brand was Prostokvashino. The dairy brand is part of the Danone group, the world's biggest yogurt maker. Oil and fuel giant Lukoil was fifth in this ranking; the country's market leading Internet search engine Yandex was 12th on the list (MPP 2010). While this survey grants some insight regarding the major Russian brands in Russia, it does not tell us if Russian brands have already left a mark outside of their home market.

To close this gap, globeone conducted a survey in 2013 to develop an understanding about which brands from the BRICs are most popular in Europe. For Russia, the results are alarming. While there are a few brands that enjoy a high awareness like Lada (77 %), Gazprom (76 %), Kaspersky (71 %) or Kalashnikov (68 %), the general preference for Russian brands is worst in class compared to the other BRIC peers. While 67 % of the surveyed German consumers said that they do

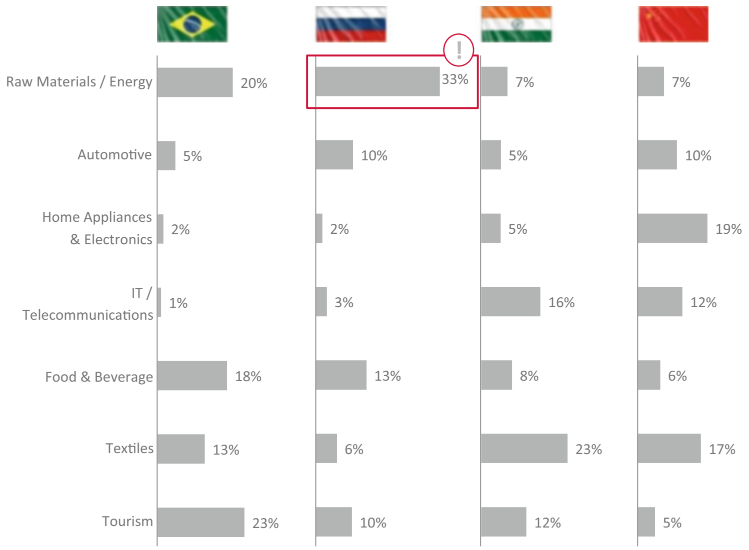


Fig. 6.1 Perception of current strengths in key industrial sectors. Russia mainly associated with "low tech" industries like raw materials, energy and food. N = 1000 German consumers. *Source*: globeone Emerging Market Brand Survey (2013)

not hold any preference for brands from Russia there were even a staggering 24 % who held a negative impression for products from Russia. And only 14 % of German consumers think that products from Russia are products of "excellent quality" (globeone 2013). When it comes to industry sectors, again, the consumer perception of consumers is dominated by raw materials and energy as can be seen from Fig. 6.1.

In Russia, brands are currently going through an interesting and important transition. Consumer attitudes are changing because people earn higher wages and are becoming more sophisticated. Overall, there is still a strong preference for foreign brands, especially those from Germany. However, Russian consumers are not automatically impressed just because a brand is foreign and with the deteriorating economic situation prices are becoming more and more important. The balance between price and quality is shifting and brands need to do more to build a distinguished position. In this environment Russian companies are starting to launch new brands, or to re-energize old ones. In some cases companies are trying to combine Russian identity with global marketing finesse. The process is driven by different factors. One of them is Russian consumers. The wealthy and members of the new middle class are now more exposed to the West because they travel more often abroad. They bring home new observations and shopping experiences, and their expectations rise. Another factor is the government, which has challenged local brands to rise up to the foreign competition that now has better access to the domestic market following Russia's joining the WTO.

Sberbank is a prominent example for a comprehensive rebranding that was implemented in order to win more customers and getting ready for international expansion. Sberbank is the country's largest bank, with a history that goes back 170 years to czarist Russia. With the history comes pride. But after the Soviet era, when services and customer care were not a top priority, the image needed some refurbishing. So Sberbank started to remake itself as a retail bank that better understands—and better serves—the different segments of the domestic consumer market. The bank has begun to upgrade its more than 20,000 branches, and it has assigned them different designations, depending on the shopping power and income levels of the neighborhoods in which they are located. Some of them are VIP centers, some of them are flagship locations, others are simply financial kiosks. This is proof of how important targeted offerings are becoming. Aeroflot and Russian Railways are two more examples of traditional companies aiming to polish their brands and put more focus on competence and customers.

Differentiation is also a growing challenge in the telecom industry. Russia's leading brands in this segment—MTS, MegaFon and Beeline—are sandwiched between state-owned competitors like Rostelecom on one side and new private companies like Tele2 and Yota on the other. In the beer industry, large players like Baltika offer an increasing number of product variations in order to differentiate themselves and to reach the growing number of market segments. Baltika, for example, has widened its brand portfolio to at least 13, including light beers, lagers and premium beer. A popular strategy for growth is to identify underserved customer segments and create tailor-made products. Among the Russian brands that are expanding into foreign markets are fashion brands, search engine Yandex, and, above all, the national energy companies. Gazprom, Rosneft and Lukoil are targeting companies in Central and Western Europe in order to expand their reach.

6.9 Russia's Emerging Middle Class

Real estate experts are currently among those who most closely watch the growing Russian middle class. "Over the past 10 years, Russia has turned into a middle-class country," says Charles Slater, a retail analyst with real estate consultant Cushman & Wakefield. People like Charles Slater have a very good reason to study the Russian middle class and its impact on the rapidly rising shopping mall landscape. In Russia's two leading cities, Moscow and St. Petersburg, malls are starting to change hands. The developers who built the first malls during the last decade are beginning to sell them off to institutional investors, drawing attention to the massive value they now represent. In January 2012, Bloomberg reported such a deal. The Morgan Stanley Real Estate Fund VII had purchased the largest mall in central St. Petersburg, the Galeria, for about $1.1 billion. Only 2 years earlier, when the Galeria opened in November 2010, the 250-store shopping mecca near the Moscow railroad station cost $380 million to build. The Galeria hosts a multi-screen movie theater, a large bowling alley, and underground parking for roughly 1200 passenger cars.

In a widely followed feature story on Russia's unfolding retail boom in January 2013, The New York Times interpreted the new-found interest of large investment funds in Russian malls as a clear sign that "Russians have become fanatical shoppers" (The New York Times 2013). According to the Times piece, Russia's shopping centers were just about to enter their boom years. The number of visitors to Russia's leading malls—of which there are 82 in Moscow alone, according to the International Council of Shopping Centers—now easily surpass those of their famous counterparts in the West. At peak times, the Mega Tyoply Stan mall on the Moscow beltway counted 57 million visitors. That compares to annual visits of around 40 million for the Mall of America in Bloomington, Minnesota, one of the top tourist destinations in the U.S.

This mall boom is fueled by rising wages in the energy and IT sectors, as well as by high employment rates, socialized healthcare, a flat 13 % income tax—and by the fact that most Russians own their homes. They are not suffocated by high mortgage costs or rental rates. This is an important reason why Russians have so much left to spend in their shopping malls. Around 60 % of pretax income goes to retail purchases, compared to 28 % in Germany. These numbers are from real estate consultancy Jones Lang LaSalle. The result of this boom is that Moscow—at over 34 million square feet—now has more floor space in malls than any other city in Europe. The New York Times, in its story, compared Russia's current retailing landscape to where the U.S. was in the 1990s.

Russia's middle class has been growing substantially. Between 2000 and 2006, it grew nearly sevenfold. In 2011, the share of the middle class—with incomes between $3000 and $15,000 a year—reached 30 % of the population. Banking giant HSBC estimates the middle class will double to 60 % by 2050. This would translate into 74 million Russians. President Putin's declared goal is to achieve a ratio of 70 % of the population for the swelling middle class. According to Chris Weafer, chief strategist at Sberbank CIB, retail spending in Russia has grown from $80 billion in 2000 to $660 billion, at an annual growth rate of around 20 %. However, increasing borrowing costs, the volatile environment and higher inflation have since put a growing burden on Russian consumers.

Still, Russia's economic advance in the previous "pre-crisis" years still remains impressive. The thriving middle class has already transformed the country into the biggest PC market in Europe, surpassing Germany, and the fourth largest market in the world. Along with rising incomes, high computer literacy and broadening Internet access have helped. Russia has also rushed ahead of other BRIC countries in terms of travel. The Russian Association of Tour Operators counted a 50 % rise in Russians vacationing abroad over the 5 years to August 2012. Russians, according to the association, travel 1.3 times more often than Chinese, and 4.6 times more often than Brazilians. An August 2012 report in the British newspaper The Guardian even claimed that it was Russian travelers who saved the Spanish tourism season that year. During the summer, Russians accounted for 40 % of the occupancy in the hospitality industry on the Costa Dorada.

It is important to keep in mind that Russian spending power is often underestimated, according to experts. The reason is rather simple. Many Russians are earning money aside from their official income. The undeclared part of the total income stream—legal or illegal—mostly comes from secondary sources like black markets, informal companies or hidden real estate assets.

6.10 Income Segments and Shifts

Russia's middle class is suffering from the Ukraine crisis and the sanctions war with the West as well. Retail prices have gone up, many Western products were banned by President Putin, and many middle class consumers have started to spend more of their income on food, crowding out discretionary spending on electronics, luxury brands, travel and imported clothing. Russia's middle class, according to European bankers, is primarily feeling the impact of the weak Ruble, rising prices and import restrictions.

At the same time, Russia's middle class is not as vulnerable as it seems on first sight because most people who comprise it are employed by the state, according to the Russian Academy of Sciences. The academy is counting 42 % of the population as middle class, a significant increase from previous years, but the most recent impact of the sanctions has made operations by some foreign investors and brand companies more difficult. Some of them have started to shrink their Russian operations. Russia's expanding middle class had grown used to brands like Stilton, Serrano ham and Parmesan cheese. Now they increasingly turn to local brands for lack of affordable foreign offers.

Still, the country has one of the largest middle classes in the emerging world, at least in relative terms. Based on income data from national sources, Euromonitor International compiled a distribution and social class comparison for 2011. The social classes that are used in this comparison refer to the number of individuals whose incomes fall within a specific range of the average gross income for all people aged 15 and above. Class A includes incomes of at least 200 % of the average gross income; class B is between 150 and 200 %; class C ranges from 100 to 150 %; class D between 50 and 100 %; class E represents less than 50 % of the average gross income. The table shows that the middle class in Russia, consisting of Classes C and D, represented a combined 53.5 % (40 % for D and 13.5 for C) in 2011. That compares to 43.7 % in China and 57.5 % in Germany.

While these numbers do not say too much about absolute income levels and wealth, they give us an impression of the distribution and inequality of incomes. "Inequality in Russia has stayed high throughout the transition period, and even slightly increased since the beginning of the millennium," reported the OECD in a paper on "Income Distribution and Poverty in Russia" in 2012. Since the start of the Ukraine crisis there is added concern that Russia's potential to reduce poverty further and add new members to the middle class at the same rate as before, will suffer for some time.

6.11 Russia's Retail Market

Russia is on its way to becoming the biggest consumer market in Europe. The forecasts vary in terms of when the country will reach this milestone. But there is hardly any doubt it will happen within years. Despite its enormous size, the market is not highly concentrated; it is rather fragmented. While there are large retailers like market leader X5 and retail chain Magnit—which is a strong logistics innovator—no single company has a firm grip on the overall market. X5—as the largest food retailer—controlled only 5.6 % of the market in early 2013. The top 10 food retailers have a combined share of less than 20 %.

GFK Geomarketing recently named Russia as the market with the third-largest retail turnover in EMEA (Europe, the Middle East and Africa). For PepsiCo, Russia is already the No. 2 market worldwide. German retailer Metro and French retail chain Auchan, both of which entered the Russian market in the early 2000s, have become well established and managed to build leading positions in the sector, with annual growth rates of around 30 %. Kingfisher, one of the U.K.'s largest home improvement chains, announced a $180 million investment, creating an additional 1600 jobs in Russia's retail industry. Henkel, the German toiletries and household products specialist, has identified Russia as one of its top locations for global expansion, after experiencing healthy growth in the country for several years. IKEA had already opened 11 stores and invested more than $4 billion in Russia by the end of 2011.

It is not easy, though, to enter the Russian retail market. There are not only success stories. Some international retailers have run into difficulties in Russia, among them Wal-Mart and Carrefour. The world's two largest retailers announced their exits from Russia after relatively short attempts to get a foothold in the market. Carrefour opened its first store in Moscow in 2009. A second one in Krasnodar followed. But after only a few months, the company aborted its plans and sold the group's activities in the country. In 2009, Russia strongly felt the financial crisis. Carrefour's timing turned out to be poor. It entered the country in the only year in the past decade in which the retail market did not grow.

Based on data from Rosstat and estimates by A.T. Kearney, the compounded average annual growth rate for the Russian retail sector between 2009 and 2015 was 12 %. The market is currently entering its second development phase. According to real estate expert Cushman & Wakefield, the average retail space per 1000 inhabitants in Russia has reached 95 square meters, which is well below the European average of 247 square meters. The report, titled "Retail Space Across Russia," introduces the retail sector as "one of the key drivers of the Russian economy." Published in November 2012, the report identified about 100 retail projects under construction with a combined space of 4.6 million square meters. It named St. Petersburg as the ongoing leader in terms of quality retail stock, Irkutsk and Tula as cities with large retail pipelines, and Kemerovo and Novosibirsk as locations with potential demand for quality retail space, while Khabarovsk and Vladivostok were described as taking their first steps.

Russia is among those emerging markets that are already predominantly modern, with 50 % or more of all grocery sales coming from modern outlets. That compares to 62 % of "organized retail" in China, but only 50 % in Brazil and about 3–5 % in India. Some observers of the Russian retail market are forecasting yet another wave in its development. Euromonitor expects the percentage of households with annual disposable income of $100,000 or more to nearly triple to 3 % of the population by 2020. Market watchers are not only predicting rising spending power for the middle class and the affluent, they are also reporting a rising sensitivity to brands and prices. Before the crisis, many consumers were willing to purchase premium products regardless of price. But now they seem to attach more importance to quality and value. According to The Futures Company Global Monitor, around half of consumers in Russia watch for the best prices they can find. More details will be provided in the section on consumer behavior later in this chapter.

6.12 The Rich and the Super Rich

One of the more prestigious honors Moscow has received in recent years is that it is the new world capital of billionaires. For several times in a row since the middle of last decade, the Russian capital was declared the primary global home of the largest number of billionaires. Seventy-eight of the world's richest people live in Moscow. New York and London hold distant second and third places in this ranking. Russia's billionaires regularly create international headlines. They are illustrating how—and why—the ranks of the mega-wealthy are growing so fast in the country. Most often it involves commodities, or the Internet, or close political proximity to the Kremlin—or a combination of these—which explains the origins of their astonishing affluence. In December 2011, Russian fertilizer billionaire Dmitry Rybolovlev paid a hefty $88 million for a luxury apartment in New York's ultra-exclusive 15 Central Park West. According to media reports at the time, the apartment was bought to house Rybolovlev's daughter, who was then attending college in the U.S. Another headline that made news around the world was a big street fight that broke out in St. Petersburg after Pavel Durov, the founder of Russia's social networking juggernaut VKontakte (the so-called Russian Facebook) threw paper airplanes out of his office window. The paper planes turned out to be made of 5000-Ruble notes, worth around $160 each. Once the crowd down in the street noticed the precious planes, a big brawl ensued.

In October 2012, Viktor Vekselberg, the founder of Moscow-based Renova Group—a conglomerate with interests in mining, energy and construction—became the richest man in Russia. He was a member in the consortium of billionaires called Alfa-Access-Renova that had just sold its shares in oil producer TNK-BP for $28 billion in cash to Rosneft. The acquisition gave Rosneft half of Russia's energy sector and turned it into the world's largest publicly traded oil group. The deal had the blessings of President Putin. Half a year before Vekselberg made it to the top of the country's billionaire ranking, metals mogul Alisher Usmanov had become Russia's richest person. Usmanov, co-owner of the

Metalinvest mining company, had purchased a 5.5 % stake in Facebook in 2010 and soon saw his shares multiply in value several times.

People in the West are quite familiar with the names of Russia's leading oligarchs. Roman Abramovich, who lives in London and owns the Chelsea soccer team, is one of them. Globetrotter Mikhail Prokhorov, who partially owns the Brooklyn Nets basketball team, is quite famous as well, especially since he failed to unseat Putin in the March 2012 presidential election. "Metals Man" Oleg Deripaska, the CEO of aluminum company Rusal, is also well known. As is Yelena Baturina, Russia's richest woman. Baturina, who began her professional life as a factory worker, is a self-made billionaire. She became rich with her construction company Inteko. She and her company are no strangers to controversy, thanks to allegations that her husband's former role as mayor of Moscow helped her win lucrative contracts.

A close look at Russia's richest individuals reveals that economic diversification has already set in. Basic materials are no longer producing the most billionaires in the country. Research by WealthInsight shows that since 2007 it was the technology sector that has become the leading source of wealth for Russia's "ultras." These are high net worth individuals (HNWIs) with net assets of $30 million or more, excluding their primary residences. As of 2011, there were more than 159,000 HNWIs in Russia. They had combined wealth of $941 billion. This means they represent just 0.11 % of the population. But their wealth is slightly larger than the GDP of Indonesia in 2012. The growing wealth at the top of the income pyramid is visible in several statistics. Among the BRIC countries, Russia stands out as the one with the highest ratio of luxury cars in total passenger car sales. The ratio was 3.8 % in 2010, compared to 2.8 % in China and 0.7 % in Brazil.

What about the lower strata of Russia's rich, the millionaires? At the end of 2011, the country counted 375,000 dollar millionaires, according to the World Wealth List, published by consulting company Deloitte. In terms of millionaires worth more than $30 million, Russia ranks seventh on the Deloitte list. And the consultancy predicted the number of dollar millionaires in the country to triple to 1.2 million people by 2020. Some analysts are skeptical about this prediction. They think it might be too optimistic, but a significant rise in the number of Russian millionaires is on everybody's prediction list. Credit Suisse bank, for example, forecasts the global number of millionaires to grow by 67 % between 2011 and 2017. Among the countries that are likely to see the largest increase are Russia with 109 %, and Brazil with 119 %, according to Credit Suisse. So what are they purchasing in order to flaunt their wealth? The answer can be found in Digital Luxury Group's "World Luxury Index Russia." The May 2012 edition lists cars, fashion, beauty products, hospitality, jewelry and watches as the most sought-after luxury items in Russia. The findings are based on numbers from Russia's top Internet search engine Yandex. Among the most popular brands purchased by Russia's rich are Chanel and Louis Vuitton. Besides these two brands, however, the list is dominated by luxury cars, with BMW in first place followed by Audi in second, Mercedes-Benz in fourth, and Porsche in ninth. Cars make up an impressive 74 % of total searches, according to this ranking. Cars are also the product that is most heavily researched online before a purchase, among all the luxury segments that were analyzed.

6.13 Challenges for Market Entrants

If corporate Western veterans in Russia know one thing for sure, it is this: Western logic does not work here. You do not just go in, invest and sell. Doing business in this country is far more complex and elaborate. Epic corruption, volatile regulation, arbitrary local authorities as well as most recent trade sanctions of the EU and the US: There are many hurdles that must be overcome. Sweden's IKEA is among those companies who can bear witness to this. The furniture chain became successful only on its third attempt. When it tried the first time, the Soviet Union collapsed. The second attempt was thwarted by a standoff between the Russian government and Parliament. When IKEA tried again, the Ruble collapsed, but the company did not give up. Within 10 years, IKEA opened 13 stores in 10 cities, supported by an enormous distribution center and three manufacturing sites. IKEA did not simply succeed. They even managed to test a completely new business model, by opening not just furniture stores, but full-fledged shopping and entertainment complexes. The first one of its kind turned out to be the most visited on the planet only 2 years after starting operations, with 50 million visitors per year.

The man who described this bumpy path to success beyond all initial expectations is the former head of IKEA in Russia. Lennart Dahlgren was the first general manager for the company in Russia. Dahlgren spent almost a decade in the country for his company. The title of the memoir he wrote says it all: “Despite Absurdity: How I Conquered Russia and How It Conquered Me.” The book was so successful, it was translated into Russian. Dahlgren's whole memoir reads like a warning, of how one should best not approach Russia with the standard set of myths and stereotypes. “People in the West know astonishingly little about Russia,” writes Dahlgren. A good part of his book is devoted to describing the constant haggling between IKEA and local authorities in Russia's capital. Featuring prominently is a bridge that was supposed to be built over the Leningrad Highway, to let customers reach the store more easily. First the construction was approved, then the permission was revoked on grounds that were hardly understandable. Only after contributing around $5 million to the development of children's sports in the Moscow region did things progress more smoothly. The message of Dahlgren's book is simple: You can get a lot of things done in this country and be successful, but you need to leave stereotypes behind, you need to be patient and to be flexible when navigating local roadblocks.

Dahlgren started his posting in Russia with a negative attitude, influenced by adverse information in the media. When he left, he had a rather straightforward explanation for the country's negative image: It served someone's best interest. “I noticed fairly quickly that many Western businessmen in Russia lead a merry life, full of affairs with Russian beauties and wild drinking sprees—this hardly promotes success in business,” he explains in his book. “There is a huge temptation to live as one pleases, and then to attribute any failures to the ‘horrors of Russian reality’: the mafia, corruption, pressure, threats,” writes Dahlgren. Superiors in the Western headquarters will then think that their “poor expat” is exposing himself to inhuman conditions and will reward him with a posting in a calmer country.

So what exactly are the challenges and roadblocks facing businesses from foreign countries in Russia? There have been a couple of helpful analyses. One was published in the magazine AussenWirtschaft in 2012. On top of the list of complaints reported by some of the 6300 German companies doing business in Russia are sprawling bureaucracy, corruption, protracted customs procedures and strict certification rules. Many companies complain about arbitrariness when they need to deal with customs officers. It is no surprise then that in the World Bank’s “Doing Business” ranking Russia finishes a distant 162nd of 185 countries. The whole import procedure on average takes 36 days, according to the World Bank. The report in AussenWirtschaft describes how creative Russian customs officials can be when it comes to leveling the playing field between local companies and the foreign competition. It quotes German lawyer Thomas Brand as remarking, “tariffs for imported cars have been lowered, but the government is now levying a scrapping fee for those imported cars.” The result is that prices for Russian customers on the imported cars have not changed, according to Brand. AussenWirtschaft also described how Russian customs acted on their own authority to re-declare imported goods in order to charge higher duties. In one reported case, customs handed out a fine for a “wrong declaration” and withdrew the money from the company’s corporate account. Nevertheless, the news story’s overall conclusion was that German companies are facing many opportunities for lucrative business in Russia (AussenWirtschaft 2012).

In a similar report in November 2012, Germany’s Manager Magazin depicted “Bitter Lessons for Remondis,” a German waste management specialist that ventured into the Russian market in 2008 (Manager Magazin Online 2012b). The waste disposal company wanted to introduce waste separation with modern containers and specialized trucks in Dzerzhinsk in Russia’s Nizhny Novgorod Oblast. Dzerzhinsk was a strategic base for Cold War-era chemical weapons manufacturing and is named by the Guinness Book of World Records as one of the most polluted cities in the world. The city’s environmental department estimated that almost 300,000 tons of chemical waste were improperly dumped between 1930 and 1998. As a result, parts of the city’s water are tainted with dangerous chemicals at levels multiple times the safe limit. So Remondis thought the city would be a perfect place to start business in Russia. Separation equipment and recycling plants were supposed to follow in a second stage of operations.

But after only 4 years, Remondis was facing a sobering record of achievement: one of five projects was terminated, another one was threatened with cancellation as well. A company with billions of dollars in sales worldwide clearly struggled with outdated laws and local competition, according to the news report, even though rising wealth in Russia has produced 30 % more waste during the last 10 years, and experts from the International Finance Corporation are forecasting another 50 % growth in waste disposal by 2025. One of Remondis’ projects was struggling with the fact that rates for different categories of waste must all be the same, offering no incentive for Russian households to separate their garbage. And selling the separated recycling material turned out to be extremely difficult. To make matters even worse, municipal authorities surprisingly terminated their contract with Remondis, following a disagreement over whether the company was responsible for removing garbage spilled around their trash containers. The newspaper report quotes an editor from the local Russian daily newspaper that Remondis did a reputable job, but got into trouble because the chief of a new local waste management company was not only a friend of the mayor, but also a city councilor, and wanted Remondis' business.

In a poll of 195 overseas executives in late 2012, the Economist Intelligence Unit (EIU) revealed that foreign brand owners in Russia share an overall positive assessment of their prospects in the country, while being well aware of the obstacles. Almost three out of four managers (74 %) whose companies were active in ventures or mergers with Russian partners were mostly satisfied with their experiences. A further 72 % stated that they would do business with Russian companies again. But while the majority of participants in the EIU poll were satisfied with doing business in Russia, a significantly lower share among them—39 %—think Russia is likely to become Europe's biggest market in volume terms over the next 10 years. Only 27 % expect Russia to develop as a "global investment magnet" comparable to China. Fully 44 % of participants believed that the political risk in Russia is too high to invest significantly. And almost half (46 %) expect a lack of reform to limit growth. Among the largest obstacles to corporate success in Russia, according to the EIU poll, are the language barrier (36 %), bureaucratic hurdles (32 %) and corruption (28 %). Legal complexities were named by 26 % of the responding executives.

6.14 Russian Society: From Communism to Consumerism

Understanding Russia is a major challenge. Famous Russians themselves have expressed how difficult it is to dig down and discover the Russian soul. One of the great Russian romantic poets, Fyodor Tyutchev, wrote in 1866: "Who would grasp Russia with the mind? For her no yardstick was created. Her soul is of a special kind, by faith alone appreciated." Obviously, you need even more than just faith, because Russia is immensely large and very diverse. Moscow is like an island in a sea. The different regions of the country feel like they are worlds apart. Murmansk in the Arctic, Vladivostok on the Pacific, Samara on the Volga River, and Krasnodar on the Black Sea offer their inhabitants very different worlds and perspectives. Cultures, traditions and history are difficult to compare. People in Siberia are "survivors"; they have learned how to be pragmatic and make things work far away from the political center. And there is not only geographic, historical and ethnic diversity. Russia has been more or less in turmoil since the breakup of the Soviet Union. For millions of people, things have been turned upside down: Under communism, practically everything was taken care of. Housing, healthcare and education are probably the best-known examples, but there were never many choices. Nowadays, it is almost the opposite: There are many choices, but Russians have to manage life on their own. The whole country, with its major industries, institutions and traditions, is in the midst of a major transition.

But change goes beyond even that: The Internet is opening the floodgates to the outside world. Tourism and television import foreign influences. Young people are no longer under the exclusive influence of their parents and schools. They are heavily affected by the Internet and electronic media, by brands and advertising. The primary goal for the young generation between 18 and 25 now is to realize their aspirations, start careers and lead prosperous lives. They evaluate education in terms of the dividends it may bring. This means that traditional structures in this conservative and collective society are under attack. In his state-of-the-nation address in late 2012, Vladimir Putin deplored that Russian society lacks "spiritual braces" to hold it together. He suggested focusing more on education and "traditional values" as a means to improve the situation. Putin instructed his government to come up with ideas for a supplementary educational program on "vospitanie." This cultural concept refers to the upbringing of young people by focusing on moral values, rules of etiquette and traditions.

In their study on "Leadership and Culture in Russia," three researchers from the Institute of World Economy and International Relations, California State University and the Institute of Problems and Perspectives of the Country in Moscow drew the conclusion that, although the economic crisis of the 1990s was deep, there are strong indications of revitalization in the country (Gratchev et al. 2013). "Although the Russian current economic situation is rather unpredictable," they write, "the findings convey certain optimism." Russia's competitiveness at both the national and corporate levels may be based on some of the positive characteristics of Russian managers mentioned in this study, such as courage, the ability to launch large-scale projects, decisiveness, the ability to make decisions and assume responsibility, and the ability to react quickly and operate in an unstable environment. At the same time, the country's cultural transformation, related to such increasingly common attitudes as future orientation and healthy individualism, also looks promising.

6.14.1 Collectivism vs. Individualism: Overcoming the Homo Sovieticus

The same research by Gratchev et al. describes Russia's society as collective and assertive. Russians, they say, lived in large open spaces for most of their history, working together, while the Orthodox Church "supported strong family ties, and inter-group mutual support." The authors argue that economic reforms during the second half of the nineteenth century and early twentieth century started to destroy collectivist traditions. But while individual freedoms like migration, an open labor market and access to education improved, those liberalizing trends were then substituted by obedience to the Communist Party, which even replaced the family and natural group loyalties. During the struggle for survival in the volatile 1990s, mutual support and collective behavior were revived, especially among those who lost out during the transitional process. "That is why Russia currently displays the striking contradictions of highly individualistic behavior, low social responsibility, and at the same time active networking for survival."

The heavy clash of traditions that Russia is currently experiencing, is also described in an article on "Culture and the Arts in the New Russia," written by Bei Wenli, the deputy head of the Russian Research Center at the East China Normal University. "By the end of the '90s," writes Bei, "it became evident that the construction in Russia of a market economy and the country's integration into the global community are impossible without taking into account its cultural traditions, values, and lifestyles. The supremacy of market liberalism and of individualism as the nucleus of Western culture came into conflict with Russia's underlying cultural traditions as well as the principles of Soviet collectivism." In these times of cultural upheaval "some nostalgic looks" at the "fabled social guarantees and safety net that the Soviet regime provided" have come back into fashion; Pavel Koshkin described this as a "post-Soviet syndrome" in an article for Russia Profile in the autumn of 2011. Nostalgic longing for the good old times might also be fueled by the sense of helplessness of many Russians who are anxious about the difficult status quo. That means there is no real desire to return to the Soviet era. It is rather the loss of its former superpower status that seems to keep Russian nationalism alive. In a recent poll by the Pew Research Center, nearly three in four Russians (73 %) said their country should be more respected. Less than half were satisfied with the way things are going in Russia. So there is a mixed assessment of the country's own economic progress.

6.14.2 The Power of System and Group

As in China, there is a strong system of informal networks among the Russians. In Russian culture, the power of an individual is less than in Europe or America. Institutions are weaker, the government is stronger, and economic circumstances are more volatile and unreliable. Arranging deals through family, friends and acquaintances is not only helpful, but necessary. You need to know people in power or with connections to make things work. At least you need to know people who know such people with influence in the system. In Russian magazines it is still popular to ask whether the "Homo Sovieticus"—a hardworking, collectivistic and patriotic human breed, indifferent to material well-being—has actually survived in Russia. The most recent studies seem to conclude that this breed has more or less become extinct. In its long-term study "The Soviet Person," Moscow's Levada Center, a non-governmental polling and sociological research organization, looked at major social trends in Russia. Its main conclusion: "Our studies find that modern Russia is a highly atomized society with a high degree of mistrust. Three-quarters of Russians do not trust each other and say that they can rely only on family members or close relatives; only personal or family ties matter" (Russia Profile 2010).

In this context the protests and riots against Vladimir Putin's administration—including the activities of the rock band Pussy Riot—are interpreted as a showdown between a government that is upholding traditional values and a movement that demands more individual rights. One of the most interesting analyses of the struggle within Russia's society between traditional values and individualism comes from the Carnegie Endowment for International Peace. In a paper on "The Russian Awakening," this struggle is interpreted as a political fight between Putin's brand of authoritarianism and an awakening Russia that is driven by aspiring young people and the middle class who want to modernize the country. In the eyes of these "dynamic, modernizing and now politically active segments of society," the political regime has lost its legitimacy. "The issue of values—from the role of religion to government accountability—is at the core of the tensions between the modernizers and the more conservative groups that accept the state's complete domination of society," states the paper.

The battlefield between the conservative forces of Russia's elite and the activist segments who are governed but have matured and are now more demanding, is described thusly: "At the very foundation of society, tectonic shifts are occurring, producing a civic awakening. The modernized segment of society has entered the formerly no-go area of political activism. To counter that, the authorities have mobilized socially conservative forces—like the Orthodox Church—that adhere to the traditional paternalistic attitudes that allow the authorities to govern unchecked in return for providing social favors to those dependent on the state." The trial of Pussy Riot as well as Putin's demand to focus on traditional values can be seen in this context. According to this interpretation, Russia has lost its social contract, or its status quo, in which people focused on their private agendas while the authorities had a free hand to govern, as long as they improved living standards in return. Now, living standards have improved sufficiently to make Russians more demanding.

A driving force in this modernizing and more demanding society is a rising urban middle class. It is fueled by low unemployment, better education, ongoing urbanization and rising wages. Russia has seen its first real consumer boom in the last decade. In 2006, Russia saw the highest sales in Europe of washing machines and telephones, it ranked second behind Germany in beer sales, and it took third place in automobiles. During the last year before the financial crisis, 2008, 2.8 million cars were sold in Russia. There were as many brand new Mercedes and BMWs on Moscow's roads as in most European cities. It was a time when malls could not be built fast enough to match rising demand. This first wave of consumerism was supported by an emerging credit culture. After 2001, it rose from almost nothing to a billion-dollar market. Now the new consumerism is even spreading to rural markets. According to French sociologist Karin Kleman, who has been living in Russia for more than a decade, "in the Russian provinces, people tend to buy a new TV set every year even if it's the third in their household, or update their mobile every half year, but eat badly. They have limited funds or take out bank credits. It's a kind of a proletarian show off" (Passport Magazine 2010).

Russian writer Elena Rubinova claims that despite the Soviet ideology and the Communist efforts to create a Soviet man indifferent to material wealth, it was already clear in the 1970s that Russian consumers were no different from any others. A phenomenon called "veshizm" spread across the country before the empire collapsed. Veshizm is translated by Rubinova in an article for Passport magazine in Moscow as "wanting and liking consumer items." According to Rubinova, the preconditions for expanding consumption in Russia are excellent: "Utility costs are low, and saving for education, health and retirement is still not widespread, nor is financial planning, so a high percent of income is spent, something that retailers have been keen to exploit".

6.14.3 Russian Consumerism: Third Revolution

The new consumerism is now becoming more sophisticated, brand-conscious and conspicuous. The competition in different industries is growing, there is a wider range of products, and consumers are much more aware of what they buy. Retail in general, and FMCG products in particular, are starting to move beyond the large metropolitan markets of Moscow and St. Petersburg. Consumerism in Russia has recently even been described as the third Russian revolution. Russian consumers are now buying products that they were not even aware of 10 years ago, among them specialized detergents, air fresheners, deodorants and acne cream. In some reports on Russia's rapidly developing retail landscape, the old saying of René Descartes, "I think, therefore I am," has been jokingly twisted into a new Russian version, "I consume, therefore I exist." A growing class of brand-conscious consumers is using Western and local brands as a means of differentiation and identity. While status-conscious consumers are turning to Western brands for accessories, they prefer to rely on some home-grown brands, particularly in the food sector, which they see as superior to pre-packaged Western products.

Market experts expect promising growth in the Russian market, even in the face of a difficult global environment. Undoubtedly, the Russian market will remain key to Western luxury brand sales as the Russian middle class grows and consumers seek to differentiate themselves through status brands (Davisjones 2009). In this respect, the brand landscape in Russia is evolving at a very rapid pace. Lada characterized the manufacturing of the Soviet era—a small, cheap car that was introduced in 1970 and became a symbol of Russia and Eastern Europe until the end of the Cold War. Today, in line with evolving tastes, Lada has revamped its image by collaborating with French carmaker Renault to become an increasingly strong brand in the new Russia. Figure 6.2 gives an impression of the latest generation of Lada developments that is in strong contrast to the traditional design.

This not only means that local brands are becoming stronger in the growing market, but also that better-informed and more demanding consumers are replacing cheaper brands that once were popular, with more advanced, higher-quality, more appealing brands. Companies offering high-end brands and services are advertising on large billboards in Moscow's streets. They offer real estate, golfing equipment and yachts. And they promise glamorous parties, elite experiences and "tsar

Fig. 6.2 Old and new world: Lada is re-inventing itself with fresh models like the Xray

treatment," pleasures and privileges that would have been unthinkable for the Homo Sovieticus.

For more than one industry, going to Russia was rewarded with a billion-dollar market. Instant coffee is a good example. With sales doubling over the 5 years up through the end of 2012, Russia has become the world leader in instant coffee consumption, based on numbers from the Organization of Coffee Manufacturers. In Soviet times, good coffee was a rarity. Now, coffee shops have sprung up everywhere. The market reached sales of $2.2 billion in 2012, placing Russia seventh in the world of coffee drinkers. As in most young or virgin markets, many consumers in the country still make their purchases based on price rather than quality, but this has already started to change. The share of instant coffee as a percentage of the total market is beginning to shrink. At the same time, the selection of blends and brands is growing, and natural coffee is expected to drive growth from now on.

Russian consumers love foreign brands. After more than 70 years under communist rule, and almost two decades of turmoil, they want to catch up in consumption. "People still remember the Soviet times, when often an individual would have to make do with the same grey coat for many years, and they are now trying to compensate for this," says Natalya Mogutnova, the quality research director at TNS Russia. In the TNS' study "Discover BRIC," she described her countrymen's appetite for big brands this way: "We don't just want to have them, we want to have lots of them and be able to choose between them. Almost 20 years of the new Russian state have not fulfilled our hunger for consumption." According to Mogutnova, showing off is a common Russian characteristic, and people in the country feel a need to impress others with material items such as cars, mobile phones and jewelry. "Russian women," she explains, "wear cosmetics and high heels even when they go out to buy a loaf of bread." Brand experts confirm this view. However, they make an important distinction between local and foreign brands in Russia. For many consumers, Russian brands do not carry much social status. Many of the local brands do not have a heritage or they lack positioning, while international brands unambiguously signal your personal choice and status. Market statistics show that foreign brands in Russia are most successful in product categories that visibly communicate status: fashion, cosmetics, cars, electronics. At the same time, Russian consumers can be very protective when it comes to Russian products that they see as a part of their culture, such as beverages and foodstuffs.

An interesting guide, "10 Things Marketers Need to Know About Russia," was written by the Moscow-born head of co-creation at Think Tank, a research and consulting company in London. Konstantin Pinaev's top-two recommendations are these: "Russians are still in a brand new world," and "Moscow is another country." Pinaev refers to the fact that brands, as they are known in Europe and America, did not exist in Russia until the early 1990s. So the new brand landscape in Russia is far more dynamic than in the West. The result is that reputations can be easily lost or gained. And more than that, consumers are fickle, so it is harder to hold on to them. Pinaev warns marketers from Europe and America to be prepared to face strong local champions in Russia. In terms of consumer attitudes, he also reminds us of the communist past: "Russians did not have the pleasures of consumerist societies for over 70 years, so they aren't apologetic or self-deprecating about material success and aspirations: If you've got it, flaunt it!" (Pinaev 2014). Also in Russia, the social standing of a consumer can be pretty hard to pin down based on age. Life stages vary significantly. You can become CFO at 25 in a young company that operates in a dynamic industry. The same 25-year-old person, says Pinaev, can "be just as likely single or have three kids."

Moreover, the use of media can make it hard to target certain age groups. Since TV is widely directed at an older mainstream audience, many young Russians do not watch it much and instead access popular shows online, where they are more active anyway. "Strong WiMax networks and free WiFi in most places also mean that the mobile Internet and mobile marketing are more advanced," says Pinaev, who observed that mobile payments are more common and more advanced in Russia than in many Western countries. He closes his guide by reminding marketers that consumer studies in Russia are more difficult to conduct than in most other markets because Russians—for a long time—were never asked for their opinions. That has made them cautious when they speak about purchasing behaviors and feelings. They tend to avoid rational answers. Maybe this is one of the main reasons why—in recent years—Western consumer goods companies have gone to great lengths to study local consumer habits. One thing is for sure. Russian consumers can be very sophisticated. Analysts in some consultancies jokingly refer to Russians as the only consumers in the world who can read bar codes.

Many researchers and managers with experience in the country are highlighting how Russian consumers have become more discriminating in recent years. One of them is Zoran Vucinic, Coca-Cola's president for Russia, Belarus and Ukraine.

During a meeting of the U.S.-Russia Business Council in Atlanta in October 2012, he argued that brands can no longer drop their leftover products on the Russian market and automatically expect to see good results. The reason: "The era of product is over; the era of brands has arrived. People make a clear, conscious choice in category by category what their brand is about, what it is offering, why it is different and more special than anything else that is on the market" (Global Atlanta 2012). Vucinic's advice is simple: "At the same time, at least for products outside the luxury sector, affordability is paramount. Foreign brands can't charge as much of a premium for imported products, so they have to wring margins out of their supply chains, not their prices." This is why Coca-Cola has consolidated its distribution channels in Russia. While in the early 1990s, just 5 % of the company's volume in the country was handled by "organized trade," that ratio went up to more than 40 %, and will climb to 80 %. Russia is not a monolithic market, explains Vucinic. "Everyone who thinks of Russia as a country is mistaken, it's a continent." Russia, therefore, is not a market where the "branding is global" strategy works.

Still, there are many anecdotal examples of companies from Europe or the U.S. that showed contempt for cross-cultural approaches in Russia, or who for some time failed to educate their new customers adequately about their brands. When Johnnie Walker, the most widely distributed brand of blended Scotch whisky in the world, hit Russia with its "We are walking" campaign, the double meaning of "Walker" and "walking" was lost on many Russians when it was translated into Russian. Another example is Bacardi. For some time, its billboards in Moscow displayed a huge ugly bat. For many people in the West, the bat is an intelligent flying mammal; for many Russians it is simply a monster. Procter & Gamble experienced a language gaffe when their "shampoo and conditioner in one bottle" ended up being "shampoo and air conditioning in one bottle," since the Russian word "kondisioner" connoted air conditioner before the country started to turn into a market-driven economy.

6.14.4 Preferences for Foreign Brands

So what are the top countries of origin for the international brands that Russian consumers prefer? They are mostly European countries. In a 2012 study by the Digital Luxury Group, 37 European originations made it into the top 50 list of the most-searched-for luxury brands, with France, Italy, the U.S., the U.K., Japan and Germany being the highest-ranked. In globeone's Russia Edition of the BRIC Branding Survey in 2012, we analyzed the image of German brands in Russia. The key findings were extremely positive for German brands. As shown in Fig. 6.3, they enjoy the highest awareness and positive perception rates amongst consumers in Russia, as compared with other BRIC countries. German brands also score highest for "excellent quality," demonstrating "high performance," "good reliability" and "trustworthiness." This suggests excellent potential for German products to benefit from the original advantages that German brand enjoy in the eyes of Russian consumers.

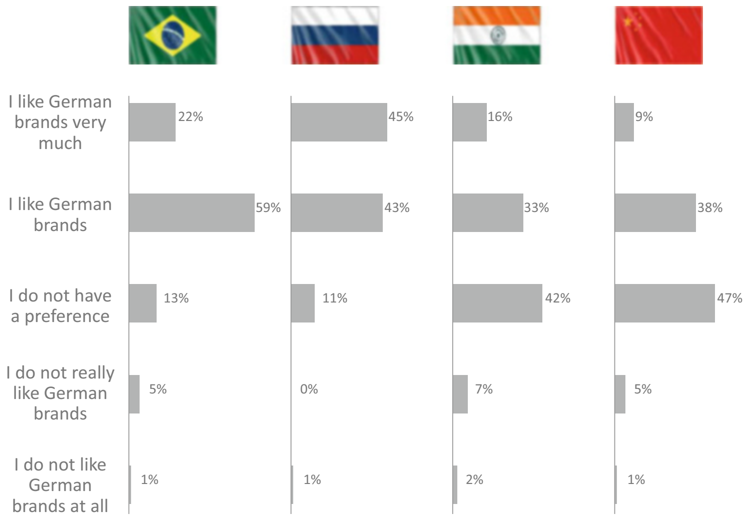


Fig. 6.3 High preference for German brands in Russia. N = 1.000 consumers per country. *Source*: globeone BRIC Branding Survey—Russia Edition (2012)

The study shows that about 90 % of urban consumers in Russia know a multitude of German brands and display a strong preference for them. German brands are liked by all three social classes represented in the survey—emerging middle class, middle class and upper middle class. It is interesting to point out that German brands are most strongly favored by 94 % of the emerging middle class with gross monthly income between $400 and $1200. This indicates immense potential for foreign brands and especially those from Germany among the growing urban population in Russia. The findings in the "BRIC Branding Survey" were based on more than 4000 interviews with consumers in 20 of the most important cities in Brazil, Russia, India and China, conducted by leading independent market research institutes. In Russia, a total of 1000 consumers in Moscow, St. Petersburg, Nizhny Novgorod, Novosibirsk and Yekaterinburg were interviewed.

For marketers, these findings convey a clear and unmistakable message: A favorable foreign country-of-origin can be used to drive purchase intentions in Russia. With brand origin as a relevant purchase driver for 90 % of respondents, a stronger emphasis on a relevant foreign brand origin can help to increase overall preference for the specific brand. In many cases, companies could do more to emphasize the origins of their brands.

As mentioned earlier in this chapter and shown in Fig. 6.4, the Internet is the most popular source of information about foreign brands for Russian consumers. In Russia, as in China and Brazil, Internet search engines play a dominant role in enabling consumers to obtain information about brands. Shopping centers and television take the second and third spots respectively.

Overall, the future potential of digital and mobile channels cannot be overstated, as will be shown in the following sections of this chapter on Russia's media

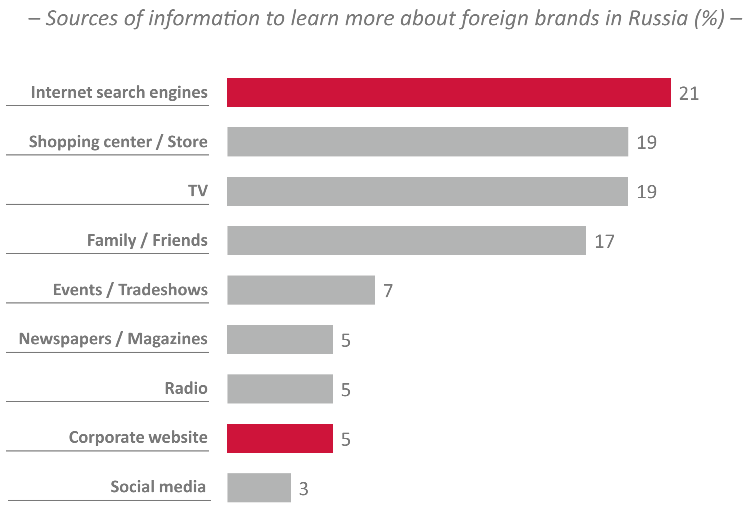


Fig. 6.4 Internet search engines and corporate websites together are most relevant digital information sources in Russia. N = 1.000 urban consumers from Russia. *Source*: globeone BRIC Branding Survey—Russia Edition (2012)

landscape and the Internet. With constantly improving Internet access and bandwidth, digital and social marketing practices are very suitable for a country like Russia, because of its continental scope. They are not only more cost-efficient than conventional channels, but the opportunity to target communications to audiences and regions makes it much more effective. The challenge remains for brands to carefully integrate such channels into their communications media mix and, more importantly, to continuously listen to and engage their target audiences. Here, foreign brands and their stories have a very good chance to be heard by Russian consumers.

6.15 Russia's Media Landscape

Russia's media landscape is highly concentrated, in terms of ownership as well as geographic distribution. Currently it is facing one of its most fundamental transformations ever: TV is being stripped of its leading role as the main source of information, entertainment and advertising. Social platforms, portals and blogging websites are taking over. According to a report in Russia Now, Russians are "turning away from state TV to the Internet for news." The report points out a larger shift that is creating a widening gulf between two Russian media landscapes: One of these is the rather lively, independent online media; the other is the state-dominated collection of television networks. "National television's monopoly on the news is starting to crumble" (Russia Now 2012). A poll by the Levada Centre revealed in early 2012 that in just 12 months, the ratio of Russians who said that they now look to the Internet for the latest news rose from 11 to 24 %. Until late last decade, TV had firmly remained the largest media segment, receiving more than half of Russia's gross advertising spending, which amounted to $5.2 billion in 2008 and over $3.7 billion in the crisis year 2009.

Russian TV, traditionally the main source of news for most Russians, is dominated by stations and channels under the control of the state. Some stations are run directly by the government, some are owned by companies with close ties to the Kremlin. In Russia, the government runs Channel One and Russia One. They are two of just three channels that broadcast nationwide. Digital TV is rather new. The government is trying to bring it to every household. There are hundreds of radio stations as well. Moscow alone has more than 40. The state-owned networks are in competition with music-oriented private radio. The market leader is Moscow's Russkoye Radio. Regional media in Russia tends to be highly dependent on local governments.

More than 20,000 printed periodicals are registered with the authorities. Among them are around 400 larger newspapers (13 of them national). There are 1700 weeklies and 17,000 magazine titles. The latest numbers for national readership stood at 70 % of the adult population. Almost all the popular titles support the Kremlin's policies. Some influential dailies are owned by companies linked to the government. Some newspapers are printed in partnership with leading foreign publications such as The Wall Street Journal, the Financial Times and Handelsblatt. After the financial crisis, the circulation of national editions—1000–1500 magazines and 300–500 newspapers—dropped by 15–20 %, according to the Russian Press Distributors Association. Since the late 1990s, the share of printed publications in ad spending has declined, from nearly 50 % in 1999 to only 20 % in 2009. The absolute figure, though, is still growing. In 2008, it reached $2.4 billion for newspapers and magazines. One point of interest for marketers: Newsstands are still the main retail distribution channel for print, with roughly 65 % of circulation. However, distribution through fast-moving consumer goods chains is rapidly increasing. It has now reached about a quarter of the circulation.

The Internet is profiting from a growing user base, which reached about 70 million in 2012, according to Internetworldstats. This is one of the main reasons why several newspapers and magazines have gone out of business in recent years. Social networks in particular have become hugely popular and successful. Part of the reason is that Russian users spend almost 10 h a month on social networks. Since the web is less tightly controlled by the government, more and more people—especially the younger generation—are turning to social platforms and blogs to find the information they are looking for. Some of the leading papers of the Soviet era have survived and are thriving. Komsomolskaya Pravda, a left-leaning daily, is controlled by the energy company YeSN. Kommersant, a business-oriented daily, is owned by steel tycoon Alisher Usmanov. Izvestia is run by media holding company NMG.

6.16 Internet and Mobile Communication

Russia's Internet—or the RuNet as it is often referred to—has come rather late to the global online party. It is now catching up very fast. Internet penetration rose from a mere 2 % at the beginning of the last decade to 15 % in 2005, and up to 43 % in 2010. For the last couple of years, the online population in Russia has doubled every 18 months. The penetration rate in the 12-to-54 age group has reached 67 %. No surprise that Russia is starting to pass some important and highly visible milestones. The Russia Profile magazine has compared the Internet in Russia today with the television of the 1990s.

The country now has the world's seventh-largest Internet population. A relatively young online audience, rising computer literacy, the rapid advance of a credit culture, explosive mobile usage and extremely active social media users are helping the Internet expand at a rising speed. Some of the most successful blogs have already won audiences as large and as devoted as print publications. They are read by up to 100,000 visitors a day. "In 2003, fewer than 10 % of the Russian population was online," wrote Maelle Gavet, the CEO of Russia's leading online retailer Ozon, in an article for The Next Web in early 2013. "Today, almost 50 % are online. Last year, Russia overtook Germany, France and the U.K. to become the leading online marketplace in Europe by number of users. The significance of this cannot be overstated, and it's proving a game-changer" (The Next Web 2013).

Gavet calls the development of Russia's Internet a slow-motion revolution. Her company is one of the best examples of the furious growth that has now been unleashed. In 2011, sales in Russia's e-commerce market reached $10 billion. By 2015 it is expected to grow to $18 billion, according to ComScore. The most popular products sold online are books, cosmetics, home appliances, mobile phones and children's goods. The three most searched-for brands in the beauty segment in 2012 were Chanel, Lancôme and Guerlain. In Russia, Guerlain is ranked much higher (third) than in the Chinese beauty market (10th) or the U.S. market (17th). Guerlain created headlines in Russia when it became an official sponsor of the Bolshoi Theatre in 2011, supporting premieres and the renovation of the main stage. The company celebrated its involvement in Russian culture by creating a limited edition perfume called Le Bolshoi. The new brand was exclusively launched in Russia.

In 2011, Ozon completed a successful funding round of $100 million to finance its exceptional growth. In 2012, it made its first acquisition, buying the online shoe and accessories retailer Sapato.ru; Sapato had been launched only 18 months earlier and already recorded 2.5 million visitors per month when it was taken over. Ozon is a great example of the formidable challenges that Russia faces as a developing e-commerce giant. Russia has the largest geographical extent of any country, spanning 8000 km from west to east. The existing infrastructure does not meet current needs because one of the keys to successful online retailing is distribution. The lagging infrastructure and weak postal service, which has a poor reputation for parcel service, mean that deliveries to the doorsteps of customers are not the norm in Russia. In order to get around this, Ozon has built its own network of more than

1000 "collection points," which it wants to expand to 3000 across the country. The company already operates the biggest e-commerce distribution center in Eastern Europe.

People come to the collection points in order to pick up their ordered goods. And they pay cash, because many of them do not trust credit cards. Around 80 % of Ozon's sales are still cash on delivery, according to Gavet. Moreover, the penetration of credit cards is still relatively low, and many cards cannot be used online because of security precautions by the banks. E-commerce in Russia is facing other unique challenges as well. Among them is the language. By far, most Internet users, especially in the countryside, prefer to search for their products and place their orders in Russian. And—contrary to practice in Europe and the U.S.—they do not like to pay in advance. But in spite of these obstacles, Russia has now reached a turning point. The number of start-up companies in e-commerce is rising. Some of them are beginning to make a profit. Online sales are growing by around 30 % per year. And for the last 2 years, institutional investors have started to come into the country and pursue promising online companies for takeovers.

It seems they are making a good investment. According to Morgan Stanley's estimates, total online sales in Russia, which were $12 billion in 2012 (1.9 % of a total $670 billion in consumer spending), are expected to rise to $76 billion by 2020. This would represent 7 % of total sales. The overall size of Russia's e-commerce market, once it matures, is estimated to climb to between $80 billion and $130 billion, depending on which forecast you trust. Experts and managers in the industry—like Gavet—believe that the most recent major catalyst for Russia's Internet in terms of outside interest was a series of initial public offerings. Mail.ru was Russia's first widely followed Internet IPO. It raised $912 million on the London Stock Exchange at the end of 2010. Next in line was Yandex, which has grown to become Europe's most valuable Internet company. Yandex, which dominates 60 % of Russia's web-search market, went public on the Nasdaq in May 2011, raising $1.3 billion. Its valuation grew explosively to $6.9 billion at the end of 2012. Ozon, Russia's e-commerce leader, might be next.

Russian e-commerce is not only attracting international capital. It is also moving into rural markets with increasing speed. According to various reports, Russia's hinterland is becoming the key driver of online sales. For Yandex.Market, the share of regional online stores rose by 13 percentage points to 36 % in 2012 alone. Many online retailers do not want to stop at Russia's borders as they manage their expansion. Many companies are looking at the whole CIS sphere, trying to gain a foothold in the wider region of the former Soviet Union. This area represents a market of 300 million Russian-speaking people. For Gavet, though, most of the drivers for the Russian e-commerce market are domestic. "Bit by bit, from banking to logistics, things are improving. While it's worth celebrating the fact that nearly 50 % of the population is online, until recently broadband rollout wasn't of sufficient quality to underpin the sector. Other factors, too, are reshaping the e-commerce business here; Russia's middle class is one."

Gavet stresses that for the first time there is a generation of young, city-dwelling, time-poor Russians with money to spend, for whom it makes sense to browse and shop online. The growth in Russia's e-commerce was strong enough to help push the country's warehouse vacancy down to a record low in early 2013. The growing importance of e-commerce in Russia is also reflected in online advertising. Revenues are now soaring. They reached $1.7 billion in 2012, which is about one-fifth of the total Russian advertising market. Marketers exert a growing influence on consumers through the rising presence of brands in social media. Facebook, Twitter and comparable sites have become a strong force in online brand promotion.

Another important factor driving the rapid e-commerce expansion is the Russian mobile segment. In 2011, for example, the Russian market grew by 8 million mobile accounts. While this was less than half the growth registered in 2009 (20 million), it has supported a significant rise in revenues. They grew by almost 18 % from 2009 to 2011. This means that revenue per user is growing quickly, reflecting the expansion of Russia's middle class and their rising incomes. The mobile Internet is currently the fastest-growing segment in value-added services in the Russian Internet. The rapid expansion of Russia's Internet is not only documented by explosive growth in e-commerce. It is also demonstrated by the fact that Yandex overtook Microsoft's Bing in global search statistics in late 2012. It is now the world's fourth-largest search engine, after Google, Baidu and Yahoo. In November 2012, it processed more than 4.6 billion search requests.

References

AussenWirtschaft. (2012, June). *36 Tage Dauerwarten*.

Business New Europe. (2012, November 19). *The insiders: Getting the WTO mindset*.

Davisjones. (2009, September 9). *Russia and branding*. www.davisjones.com

EBRD. (2012, December 13). Diversifying Russia. Accessed November 9, 2014, from http://www.ebrd.com/pages/research/publications/special/diversifying-russia.shtml

Ernst & Young. (2012, March). *An overview of the Russian and CIS automotive industry*.

Global Atlanta. (2012, December 24). *Coke's roadmap to winning in Russia*.

globeone. (2012, June). globeone BRIC branding survey—Russia edition. Accessed February 25, 2015, from http://globe-one.com/survey-of-the-image-of-german-brands-in-russia-2121/

globeone. (2013, August). globeone emerging markets brands survey. Accessed March 1, 2015, from http://globe-one.com/brands-from-south-korea-brazil-russia-india-and-china-are-still-often-hidden-giants-in-europe-2-4580/

Gratchev, M. V., Rogovsky, N. G., & Rakitsky, B. V. (2013, January). Leadership and culture in Russia: The case of transitional economy. Accessed November 12, 2014, from https://www.hs-fulda.de/fileadmin/Fachbereich_SW/Downloads/Profs/Wolf/Studies/russia/russia_chapter_tc4.pdf

Manager Magazin Online. (2012b, November 16). *Gescheiterte expansion*.

MPP. (2010). Ru.Brand top 100 Russian brands in 2010 survey. Accessed February 25, 2015, from http://www.rankingthebrands.com/The-Brand-Rankings.aspx?rankingID=166&nav=category

OECD. (2013). Health at a glance 2013. Accessed February 20, 2015, from http://www.oecd.org/els/health-systems/Health-at-a-Glance-2013.pdf

Passport Magazine. (2010, April). *Consumerism: The third Russian revolution*.

Pinaev, K. (2014). 10 things marketers need to know about Russia. Accessed November 12, 2014, from https://twitter.com/Pinaev

PricewaterhouseCoopers. (2013, January). *World in 2050 the BRICs and beyond: Prospects, challenges and opportunities*.

RIA Novosti. (2011, September 19). *Three chapters of history*.

Russia Beyond the Headlines. (2012, October 22). *Energy sector boosts Russia's consumer market*.

Russia Now. (2012, June 12). *Russians turning away from state TV to internet for new*.

Russia Profile. (2010, August 7). *Evolution of the Homo Sovieticus*.

Smetanina, S. (2012, September 26). The world's most educated country lacks quality education. *Russia Beyond the Headlines*.

The New York Times. (2013, January 1). *Rising middle class brings retail boom to Russia*.

The Next Web. (2013, February 17). *Russian eCommerce is reaching a tipping point*.

The World Bank. (2012). Doing business in Russia 2012. Accessed November 9, 2014, from http://www.doingbusiness.org/~/media/FPDKM/Doing%20Business/Documents/Subnational-Reports/DB12-Sub-Russia.pdf

Voice of America. (2012, September 4). *American car makers bet billions on Russia's car boom*.

Zubarevich, N. (2012, March 29). Four Russias: Rethinking the post-Soviet map. Accessed November 9, 2012, from https://www.opendemocracy.net/od-russia/natalia-zubarevich/four-russias-rethinking-post-soviet-map

Brazil: The Green Giant

7

7.1 Introduction

Brazil is the fifth largest country in the world and the leading economy in South America. Its economy represents half of Latin America's commercial power. With a GDP of $2.25 trillion in 2013, Brazil ranks as the seventh largest economy on the planet. At the end of 2011, the country overtook the UK. However, per capita income still remains a third of the UK's. From 2007 to 2012, the GDP grew by a staggering 77.5 %. Agriculture accounts for 5.5 % of GDP, industry for 27.5 %. Its service sector, with a share of 67 %, is much larger than in other BRIC countries. As a very young country, almost 33 % of the 206 million Brazilians are 19 years old or younger. And 85 % of them live in urban centers along the East coast. In Brazil, urbanization started relatively early compared to other BRIC countries. By 1991, 76 % of its 147 million inhabitants were living in cities.

The northern region of Brazil is heavily populated by descendants of indigenous groups, known as Caboclos. They live along the rivers in the Amazon basin and rely on crops, fishing and hunting. The Northeast is populated by the Nordestino, mostly peasants and small farmers. Given that this part of the country received the majority of the African slaves previously brought by Portuguese colonizers, the Nordestino are a racial mix from the integration of Africans and local natives. The strong African influence is mostly visible and felt in cities like Salvador and Recife. The country's Southeast and Center-West regions possess a real cultural mosaic without dominant ethnic groups.

The national flag of Brazil—the Bandeira do Brasil—is one of the many expressions of pride in this lively, diverse and creative country. Its blue disc depicts a starry sky and is spanned by a curved band within a yellow rhombus on a green field. The disc's 27 white stars reflect the sky over Rio de Janeiro on November 15, 1889, each one representing a specific Brazilian state. The curved band that wraps around the disc is inscribed with the national motto: Ordem e Progresso, Order and Progress. The green and yellow colors on the flag represent the Braganza-Habsburg dynasty.

N. Schaffmeister, *Brand Building and Marketing in Key Emerging Markets*,
Management for Professionals, DOI 10.1007/978-3-319-19482-0_7

Brazil's Southeast, with a geographical triangle spanning from Belo Horizonte to Sao Paulo and Rio de Janeiro, forms the economic center of the country. Life in the North is dominated by the Amazon River and jungles. In the agricultural South you can still hear people speaking German or Italian, and despite that Portuguese is the official language. Portuguese is spoken by nearly 100 % of the population and is one of Brazil's strongest elements of national unity. The country is named after brazilwood, a tropical hardwood whose core yields a red pigment that is ideal for dyeing clothes. It was very popular at the French court. Early explorers called the trees pau-brasil. Pau is Portuguese for wood. Brasil comes from brasa, the Portuguese word for red-hot coal.

After decades of military rule and crippling inflation, Brazil has experienced a period of political and economic stabilization since the 1990s. A rapidly growing middle class, rising prices for its major commodities as well as various government programs have lifted millions of people out of poverty and transformed the country into a magnet for international investment. Major offshore oil discoveries during the last decade are starting to propel the country into the top league of oil-exporting nations. More than 30 million people have been lifted out of poverty during the last 10 years. The middle class now accounts for slightly more than half of the population. Nevertheless, the gap between rich and poor is extremely wide. In big cities like Sao Paulo and Rio de Janeiro around one out of three people live in favelas, or slums.

Brazilians are optimistic, young, energetic and diverse. The median age is slightly below 30. More than 68 % of the population is in a working age between 15 and 64. Only 7 % are 65 and older. The first European immigrants came to Brazil during the colonial period in the early 1500s and were mostly of Iberian origin. In the sixteenth and seventeenth centuries, Dutch immigrants followed, mostly settling in the Northeast. The European colonists imported hundreds of thousands of slaves from the African continent and forced them to work in sugar plantations, mines and coffee plantations. From the second half of the nineteenth century, when slavery was discontinued, Italian immigrants began working in the coffee plantations. In the Southern part of the country, European settlers established farming colonies.

With the European settlers came Christianity. Roman Catholics account for almost three-quarters of the population, while 15 % are Protestants. Brazil is now regarded as the largest Catholic country in the world. In the early twentieth century, Japanese and Middle Eastern immigrants added to the country's unique ethnic mix, as these groups mingled and intermarried. This is why Brazil is sometimes referred to as a "racial democracy." In reality, however, there is a strong correlation between light skin color and higher income. In rural Brazil, there are 40 million people and another 10 million who live in towns with populations of less than 20,000. Almost 89 % of Brazilians aged 15 and over can read and write. The 1988 constitution promises education as one of the country's founding principles and a right of every citizen. The schooling rate among children aged 7–14 is around 98 %. But this can not be taken as evidence that things are working, as the quality of teaching remains insufficient.

Brazil's enormous diversity has contributed to some of the most distinct characteristics of the country. Since the sixteenth century, the massive influx of people from different continents and cultures has resulted in a wide range of imported cultural values. The different social norms that entered the country with its immigrants had to be aligned with the unique circumstances and realities of the new frontier environment. For example, someone from a Christian background wanting to marry officially often dealt with the absence of a priest. During the course of Brazil's recent history this created a noticeable distance between practices resulting from imported traditions on the one hand, and official norms on the other.

In order to shorten this distance, people had to be very flexible and pragmatic. Brazilians needed to adapt constantly. Therefore, they also needed to develop skills for improvisation. There is a saying in the country: "There's the right way, the wrong way, and then the Brazilian way." This adage represents the creativity and flexibility Brazilians need—and display—to overcome difficult situations and identify alternative ways to stay safe and make a living, which is truly a national talent.

In Brazil, the talent of skillfully avoiding regulations has a name: *Jeitinho*. Brazilians are not very enthusiastic towards official norms, as many norms are regarded as having been created to benefit only a small group and not the whole country. Other norms are created to last for only a short period of time, after which they disappear when they are no longer significant. Bending the rules has become a particular art in the country. Authorities and the government do not enjoy a lot of trust in such an environment, and when institutions are not deemed very trustworthy the importance of family is elevated. Brazilians place a high value on their families. They are fond of children and are traditionally close to their parents.

With its large domestic market, a rising middle class and plenty of loans available for consumption, Brazil has quickly risen on the radars of international investors. According to Ernst & Young's 2012 attractiveness survey, Brazil was the second most attractive global destination in terms of FDI value and fifth in terms of number of projects. Around 60 % of the foreign direct investments come from the US, UK, Japan, Germany and Spain, with rapidly increasing trade links to China. The People's Republic of China has become an important customer for Brazil's commodities. It is now the leading customer for Brazilian exports, purchasing 70 % more from the country than the U.S. During the most recent decade, China's take of Brazilian exports jumped from 3 to 16 %. In a comparison of the world's 25 most attractive rapid-growth markets, Brazil received overwhelming rates: 78 % of investors polled in the Ernst & Young survey see Brazil as the most attractive country in Latin America, roughly 9 out of 10 define the country's market size as its most valuable asset and 72 % believe Brazil has a strong entrepreneurial culture.

The most common explanations for this favorable assessment include Brazil's robust economic foundations, a burgeoning middle class, rising domestic consumption and a wide base of industrial and natural resources. The highest rated criterions among those investors who want to do business in Brazil are its domestic market, the quality of life, the telecommunications infrastructure and the entrepreneurial spirit. Brazil has already become the fourth-largest market for automobiles, surpassing Germany, and the fourth-largest market for TVs and LCD panels. Brazil has risen to the number five spot among the leading mobile markets, as the country now has more registered mobile phones than it does have people. And by 2015, according to a forecast by the Evans Data Corporation, South America's most populous country will rank sixth among the largest software developers.

A large number of famous Brazilians have helped to broaden the country's global footprint and its image as a haven of soccer, samba, beauty, creativity and sandy beaches. Edison Arantes do Nascimento, otherwise known as Pelé, was voted Football Player of the Century in 1999. The three-time World Cup Champion is one of the best known Brazilian sportsmen of all time, and was a key figure in promoting the 2014 FIFA World Cup that was hosted by 12 Brazilian cities. The event was anticipated to generate more than \$70 billion for Brazil between 2010 and 2014, and to create more than 3.6 million new jobs. But not everybody is convinced of these positive effects of the World Cup. In late 2013, over a million Brazilians poured onto the streets of some 100 cities to protest against widespread corruption, the spiraling cost of the 2014 World Cup, inefficient public services and poor infrastructure. It was the largest collection of anti-government demonstrations in the country's history.

Another world famous sports ambassador for Brazil is Formula One driver Rubens Barrichello. Film director Fernando Meirelles and Francisco Costa, star designer for Calvin Klein, are also well known Brazilians, as are singer and actor Carmen Miranda and the late architect Oscar Niemeyer, whose buildings include the United Nations Headquarters in New York, the Serpentine Gallery Summer Pavillion in London's Hyde Park and can be seen throughout the capital Brasilia. And not to forget: The country, whose people are "beautiful by nature" and "blessed by God" has also spawned some of the world's most desirable faces and bodies, among them Gisele Bündchen. The Brazilian fashion model is best known for her pouty lips and long legs.

How has the largest exporter of iron ore and the biggest supplier of meat, coffee and chicken on the planet been able to cut its poverty rate in half within just 20 years, and then go on to add 49 million Brazilians to its middle class since 2003 (The middle class is defined as those families who earn between \$690 and \$2970 a month.)? The answer is quite simple—and not really surprising. Brazil is a commodity powerhouse. The country has immensely benefited from high prices of iron ore and many of its other main metals and agricultural products, spurred mainly by China's voracious appetite. Increasing political stability and the rising availability of credit are major drivers as well. From 2007 to 2011, total credit as a share of the domestic economy rose by 11.2 % points to 46.4 %. Brazilian consumers, it seems, are increasingly open to using loans as a way to improve their livelihood. In fact, credit card transactions have already become the favored buying instrument among Brazilians.

There are now more than 630 million credit cards in circulation in the country, more than three for every citizen. Demographics play an important role, with more than 80 % of Brazil's population living in urban areas. And not to forget: The country's history of hyperinflation has encouraged consumers to spend more and to save less. By nature, Brazilians tend to not be big savers. They live in the present and they prefer to buy in the now. Three distinct periods of hyperinflation in the 1930s, 1970s and as recently as the 1990s, have conditioned Brazilians to be spenders with little incentive to invest. For a long time, this lack of savings resulted in little capital available for lending.

The country's recent success saga has much to do with social engineering. Social welfare schemes contributed massively to rising incomes. One of these has been the "Bolsa Familia," implemented by former president Lula da Silva, who came to power in 2003. Bolsa Familia was started in 2004 and has become one of the largest conditional cash transfer programs in the world, benefitting more than 12 million families across Brazil. Payments to eligible persons are tied to school attendance and regular health check-ups. Bolsa Familia provides monthly transfer payments to poor households with children up to 15 years of age and/or a pregnant woman. The maximum transfer for an extremely poor household can reach $66 per person.

The program's main conditions are: Children aged 6–15 must achieve 85 % school attendance, those up to 6 years old must have their immunization status confirmed. Children and pregnant women must have regular health check-ups. For many of Brazil's poorest families these transfer payments are the equivalent of 20–40 % of their household income. Lula's Bolsa program is credited with reducing poverty by 40 %. But the program faces significant criticism. Critics argue that it fails to solve the problem of poverty in the long term. Because those receiving Bolsa Familia transfers cannot be a legal employee, many people prefer to receive the money and stay at home, or just do small jobs rather than go to work full-time. There is a well-known case of a textile company in the Northeast that faced big problems because it couldn't find seamstresses; all potential applicants simply did not want to lose their privilege of receiving government money through Bolsa Familia.

One of the campaigns that helped to stabilize Brazil politically and socially was Fernando Cardoso's "Real Plan." Cardoso was president from 1995 to 2002. The Real Plan introduced Brazil's current currency, the Real. It was a shock treatment for the economy that helped to tame runaway inflation. One of the lasting effects of the program was to unleash a new generation of consumers. Cardoso granted the central bank operational independence in 1999. After many frustrated attempts to manage Brazil's hyperinflation in the 1980s and 1990s, the Real Plan is widely regarded as one of the more successful initiatives of economic stabilization. In June 1994, one month before the Real replaced the old Cruzeiro as legal tender, the annual inflation rate was measured at roughly 5,150 %. By December 2000, six years later, it was down to approximately 10 %. Initially, the Real gained in strength, and its appreciation triggered large capital inflows halfway through the 1990s. But then it depreciated and, after the start of the Asian Financial Crisis, wild fluctuations resulted in the 1999 currency crisis. The introduction of the Real slowed down Brazil's GDP rates to 3.0 % annually from 1994 to 2000. But for a couple of precious years it helped to stabilize the economy and accelerate expansion of the new middle class.

Cardoso's successor, Lula da Silva, added subsidized housing, easier credit access and generous pay hikes to the welfare initiatives. Starting under Lula, banks were allowed to deduct interest charges on debt directly from the workers payroll in order to boost consumer lending. According to Brazil's Institute of Applied Economic Research (IPEA), total investment in social welfare—such as education, housing and healthcare—increased from $115 billion in 1995 to $315 billion in 2010. Federal social spending per person on these programs more than doubled in a span of just 15 years to $1642 in 2010. Its share of GDP rose from 11.2 % to 15.5 %. The results are phenomenal. According to the World Bank, the middle class in Latin America has grown by 50 % in the 6 years leading to 2009. The Brazilian middle class alone has contributed more than 40 % to the region's overall increase.

In the process, Brazilian aspirations have become as large as the country itself. In a paper for a trade delegation from Australia (Department of Foreign Affairs and Trade 2001), the Consul General and Trade Commissioner from Down Under in Sao Paulo described Brazilian business people as "having big country ideas." The Brazilians, the Commissioner wrote, "act like Portuguese-speaking Texans, they are worldly and have an approach to business that is strongly entrepreneurial." The paper describes Brazilian business people as flexible, with tolerant manners, a relaxed disposition and an informal approach. Personal contacts play an important role and strong personal relationships take time for foreigners to build, as some deals may require a number of visits to Brazil before they can be completed. Another important feature of Brazilian business, as highlighted by the Commissioner, is a flexible approach to time. Meetings hardly ever start punctually.

7.2 Rankings and Milestones

Brazil already has made its mark in several international rankings. In the Global Competitiveness Index 2012–2013 by the World Economic Forum (WEF), Brazil ranked 48 out of 144 countries, second within the BRICS grouping behind China (29), but ahead of India (59) and Russia (67). In the 2012 ranking, Brazil is the only BRIC country that managed to improve its position. It went up five ranks as compared to the year before. Noticeable marks for Brazil on this prestigious list include coming in at 39 for innovation and sophistication factors. In its country profile, the WEF explains Brazil's entry into the top 50 worldwide with an overall "fairly sophisticated business community," one of the world's largest internal markets "which allows for important economies of scale," and "fairly easy access to financing."

On the downside, in highlighting Brazil's challenges the WEF mentions low trust in politicians, weak government efficiency, excessive regulations and "wasteful spending." The transport infrastructure is noted, described as "an unaddressed long-standing challenge." According to the WEF, Brazil's education system "does not seem to match the increasing need for a skilled labor force." The time to start a business puts Brazil at the lower end of the ranking, at 139. Equally negative is the ranking for taxation, which is deemed "too high and to have distortionary effects." The World Bank, in its 2012 Ease of Doing Business survey, ranks Brazil 126 out of

183 countries, dropping six positions as compared to the year before (China ranks 91 and India 132). The WEF's most recent assessment of Brazil is reflected in claims by experts as well as the country's political opposition. They demand President Dilma Rousseff to double Brazil's spending on infrastructure, reform the education system that produces too few skilled workers and engineers, ease high taxes and sprawling regulation, and curb corruption.

Even after making great strides since the 1990s in opening up its borders to trade, Brazil remains in the bottom section of the Global Enabling Trade Report. Market access, tariff barriers and the heavy burden of customs procedures are still considerable challenges. In terms of transport and communication infrastructure, Brazil obtains low scores for paved roads and the quality of ports. The good news is that the government launched a "Growth Acceleration Program" in order to invest $80 billion per year in preparation for the World Cup in 2014 and the Summer Olympics in 2016. A clear positive is Brazil's advance on the Global Information Technology Rankings to 56th place. And when it comes to the enrolment in secondary education, Brazil ranks better than China and India with an almost 100 %.

Brazil has the ability and the tools to overcome its well-known challenges. One of the perceived strengths of the country—and its elites—is a strong pragmatism. Dilma Rousseff, who took charge in January 2011, is a left-leaning president from the Workers Party with roots in the 1980s trade union movement. But she has continued many of the market-friendly policies of her predecessor Lula, among them lowered interest rates, tax cuts and ramped up spending on infrastructure. In August 2012, Rousseff announced a $65 billion privatization program for highways and railroads, at which time Forbes magazine described her as the world's third most powerful woman. Her popularity and influence certainly make it easier for her to be pragmatic. As a center-left politician she has no problems embracing the business world in order to provide the needed boost of investment for the economy. While Rousseff was once announcing her intentions to auction off government property to private investors to jolt investments, public servants were protesting outside.

One of the great internal strengths of the country is that Brazilians feel optimistic about the future relative to most of the world's population. In the BRIC Branding Survey globeone conducted in 2011, we found strong evidence of this among the 1000 interviewed Brazilians from five major cities. As shown in Fig. 7.1, 91 % of the respondents told us that they think the economic development of the past years has positively influenced their personal living conditions. Government programs, improved incomes, better economic equality and a general national cohesiveness are enhancing this kind of optimism.

7.3 Infrastructure: High Priority Headache

Compared to China, Brazil has been constantly underspending on infrastructure. Only 2 % of GDP was invested in recent years to build the arteries for further growth: Roads, railways, bridges and power plants. The main reason was a series of

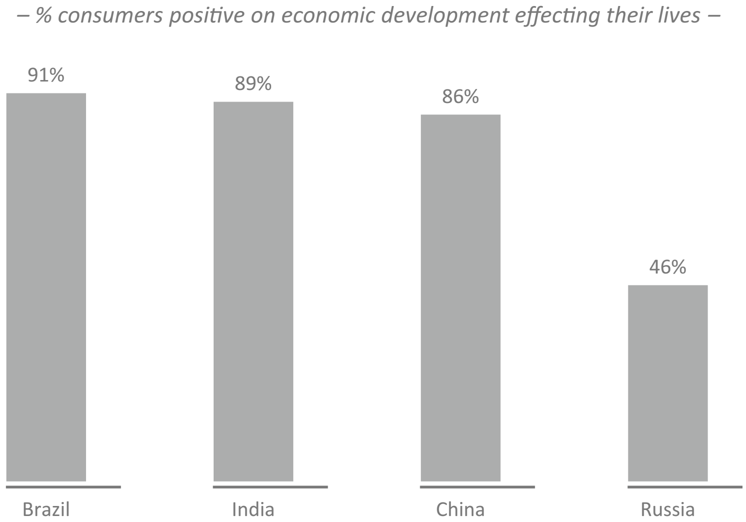


Fig. 7.1 Positive perception of the economic development path in Brazil. N = 4.033 urban respondents from BRIC countries. *Source:* globeone BRIC Branding Survey—Brazil Edition (2013)

crises in the 1980s and 1990s. However, preparations for the FIFA World Cup and the 2016 Summer Olympics have changed the momentum. The government is well aware that it must invest heavily to avoid embarrassment when it hosts these spectacular events. Moreover, it is aware of the need to upgrade roads, ports and airports in order to sustain high growth rates to feed and satisfy its growing middle class with all its aspirations for mobility. In early 2010, former President Lula da Silva launched the second phase of its Growth Acceleration Program (PAC 2), announcing investments of $526 billion over 4 years and post-2014. For the period after 2014, the investment is $346 billion. PAC is a strategic program that combines management initiatives and public works totaling $872 billion in two phases.

PAC 2 focuses on logistics, energy and social development through six major initiatives: Urban infrastructure, safety and social inclusion, housing, sanitation, access to electricity and transportation. The community segment of the program includes emergency care units, basic health clinics, daycare and pre-school centers, sports facilities and police stations. If you measure it by miles per 1000 workers, Brazil's road network is actually more extensive than in the fellow BRIC countries China and Russia. But in Russia, four-fifths of the roads are paved. In China, the ratio is 54 %. In Brazil, only 6 % of roads are paved. Thus Brazil clearly needs to act quickly if it wants to support further growth at elevated rates.

7.4 Centers of Economic Gravity

With 11.3 million people, Sao Paulo is the largest city in the Southern hemisphere, as well as Brazil's business center. Almost half of the country's economic activity takes place in the city and the surrounding state. During peak hours of traffic Sao Paulo can virtually be paralyzed. According to local transportation engineers, traffic jams can add up to more than 150 km on a really bad day. Sao Paulo has one of the worst congestion problems in the world. This is the main reason—next to booming enterprises and rising corporate wealth—that per capita Sao Paulo has more private helicopters than any other city on the planet. Nevertheless, Sao Paulo is also garnering the most attention among foreign direct investors. Slightly more than one out of four FDI projects in the country are directed to the city. Rio de Janeiro comes second with 8 % of the projects, followed by Curitiba with 2 %. Very recently, the Northeast region has been catching up fast on international radars.

Rio de Janeiro has traditionally been Brazil's mecca for tourists. In a recent list of the top 13 hot new destinations by UK-based carrier British Airways, Rio came second. During its preparation for the FIFA World Cup, the city created an additional 100,000 jobs in tourism and the municipality started a project called "oral Rio Digital," which provides free Wi-Fi for locals and tourists alike. Rio has become home to the nation's oil industry and headquarters for Brazil's largest mining giant CVRD. It is also the most important center for the telecommunications industry. Belo Horizonte, the capital of the state of Minas Gerais, is a rising hub, thanks to its location at the center of the country's mineral wealth. Minas Gerais means "general mines" in English. Belo Horizonte is also home to Brazil's fastest growing population of ultra-millionaires. Revenues from mining and heavy industry have helped the city—which is well known for having the highest number of bars per capita—become the fourth largest regional economy and the third largest metro area. The city's number of multimillionaires has risen by more than half, to 330, since 2007.

7.5 Main Industries and Markets

Brazil has one of the most advanced industrial sectors in Latin America. Its diverse manufacturing base includes automotive production and components, machinery and equipment, textiles, shoes, cement, computers, aircraft and consumer durables. In services, the country is developing a strong base in telecommunications, banking, energy and information technology. Brazil is establishing itself as a leader in IT outsourcing in Latin America, while also attracting significant attention for biofuels, agricultural research, offshore oil exploration and remote sensing. Brazil is an agricultural powerhouse, with the world's leading production in sugarcane, coffee and tropical fruits. Brazil is now growing 170 million orange trees, and it contributes slightly more than half of the world's annual production of concentrated orange juice. Some in the industry call it the "OPEC for oranges." The country is one of the leading producers in soybeans, corn, tobacco, cocoa, cotton and cattle. It is also the largest exporter of ethanol.

In October 2012, Brazil reached an important milestone as an evolving consumer society. It counted more than 70 million vehicles on its roads. The country has become the third largest automotive market behind China and the U.S., and many of the global brands in the industry are ramping up their production capacity in Brazil. Auto supply producers rise in tandem with the manufacturers. Brazil has become a leading supplier in high-tech rubbers and lightweight plastics, and it registers one of the highest demands in "green tires." These are high performance tires with low rolling resistance.

New oil discoveries have lifted Brazil into the premier global league of oil business. Its Tupi field discovery is regarded as the largest since 2000. According to Brazil's oil major Petrobras, the field could produce up to eight billion barrels of oil. A second major discovery, the Carioca—Sugar Loaf, might contain 33 billion barrels according to the National Petroleum Agency. That would make it the third largest discovery overall. Together with the Tupi field, Brazil would rank eighth in global production.

Brazil is the fourth largest cosmetics and personal care market in the world. The real compound growth rate in this segment was 10.7 % during the second half of the last decade. The explanation for this rapid growth is rather simple: The growing participation of women in the workforce—as well as the increase in life expectancy—have led to the development of new use and demand patterns. There is a rising necessity for maintaining a wealthy and youthful appearance. Fifteen large companies dominate almost 72 % of the market. Multinationals like Unilever, Avon, Nivea and Colgate-Palmolive are leading the market, battling for market share with leading local players like Natura and Boticario. The country is also the third largest footwear producer and the fifth largest footwear market. In the clothing industry there is a significant presence of local players. As the country produces more and more members of the middle class as well as around 22 millionaires every day, travel and tourism are growing quickly.

One of the larger success stories in Brazil is aerospace. Embraer has become the main competitor of Canada's Bombardier for a leading share in the global regional jet market. The industry started in the 1970s, accelerated in the 1990s and rose in prominence after 2006. Brazil has built a whole supply chain around Embraer. The Brazilian plane maker has 17,970 employees and registered revenue of almost $6 billion in 2012, according to its company website. Embraer generates 25 % of its revenue in Europe, and 23 % in Asia Pacific. At the end of the third quarter 2012, it had an order backlog of $12.4 billion. Almost two-thirds of the revenue comes from commercial aviation, 18 % from its defense and security business. In December 2012, the company won regulatory approval for its biggest regional jets to fly in Russia, following a meeting between Dilma Rousseff and Russian Prime Minister Dmitry Medvedev. While demand dries up in Europe, this opens a new frontier for the E-190 and E-195 commercial jets. It reinforces the delicate diplomacy surrounding Embraer's drive onto the home turf of Russian rival Sukhoi. The approval is one of the many examples illustrating how fast the economies within the BRIC group integrate with each other. In 2011, Embraer won approval to build planes in China.

One of the main growth drivers for years to come will be the Brazilian oil and gas sector, according to the aforementioned Ernst & Young paper. Almost one out of three foreign direct investors expect the country to be the leader in the energy sector by 2020. The discovery of several potentially huge fields in the "pre-salt" layer off the coast since the late 1990s has opened a new frontier for the country. Brazil is already the tenth-largest energy consumer on the planet, with a total domestic demand of 2.5 million barrels per day in 2009. By 2035, demand is expected to rise to four million barrels per day. A characteristic of the Brazilian energy landscape is the prominent role of biofuels, primarily ethanol. The ethanol program dates back to the 1970s, after the first global oil price shock. The ethanol program was designed to reduce import dependence and to utilize the surplus sugar cane production. All gasoline in the country contains at least 20 % of the biofuel. Following the rapid growth of crude oil and biofuel production, Brazil is now self-sufficient and will play a growing role in exports in the years to come. According to industry forecasts quoted by Ernst & Young, Brazil will be the single largest source of new oil supply outside of the OPEC over the next 20–25 years. Petrobras expects to invest an average of almost $45 billion per year until 2014 with more than half dedicated to its upstream business.

Brazil is also one of the largest IT markets within the emerging economies. The country is operating more than 70 tech parks, including the Rio area, where oil-related technology is developed in order to tap the massive deep-water reserves. Another emerging tech hub is Campinas, about 100 km north of Sao Paulo. The city of over one million people is Brazil's equivalent to Silicon Valley. The IT end-user market is expected to expand to $134 billion by the mid of this decade. At 72 %, the lion share of spending will be on telecom equipment. The local telecommunications market is already the seventh largest in the world. The government privatized the industry in the 1990s. The highlight was the break-up and auction of the governments controlling stake in Telebras in July 1998, which was the largest privatization in Latin America's history. Prior to that Telebras operated 95 % of the whole telecom infrastructure.

In the summer of 2012, the government unveiled a three year IT program with a volume of $248 million. The "Plano Maior" is designed to boost the software and IT services industry and promote job skills, public-private partnerships and provide incentives for start-up companies in the sector. Its priorities are building and strengthening critical competencies in the national economy as well as enhancing productivity and technology density within various value chains and expanding the domestic and external markets of Brazilian companies. It is interesting to study the government's explanation for various objectives in the Plano Maior. The official goal is to create a large and dynamic domestic market that is able to sustain growth, even in the context of economic crises in developed countries, as well as to foster favorable conditions in commodity markets that enable a sustained trade surplus and support innovative companies that can lead a manufacturing modernization process.

If everything goes according to plan, public-private initiatives will invest in 150 start-ups, develop 50,000 new professionals, stimulate 15 strategic areas of software development and implement four innovation centers by 2015. Brazil still has a lot of work to do, especially in terms of education for the IT sector. While China and India are releasing 400,000 and 250,000 engineers on the market annually, Brazil only manages to put out 38,000 graduates per year. On the R&D side, Brazil has managed to increase its spending from 0.96 % of GDP in 2003 to 1.16 in 2010. This is hardly different from other emerging countries. However, in Brazil the share of private enterprises as a source of the investments is much smaller, with the government playing the major role. Brazil hopes to increase the IT sector's earnings from $37 billion in 2011 to $400 billion by 2020.

In a fun-loving, vibrant and colorful country like Brazil, there is a flourishing creative economy as well. Its most famous representatives are very well-known and in high demand all over the Western hemisphere. One of the better known such individuals from Brazil is bestselling author Paulo Coelho, who has gained celebrity status among readers in Europe and North America. Starbucks fans will be familiar with the singer Céu. She was the first foreign artist with an album chosen for the coffee chain's Hear Music Debut series. Cartoonist Mauricio de Souza, who has created over 200 characters and started his career as a crime reporter at the age of 17 is another example. He was hired in China for a pre-literacy project that involved 180 million children. Moviegoers will be familiar with film director, producer and screen writer Fernando Meirelles, who's film "City of God" was nominated for an Oscar in 2004.

7.6 From Crisis to Latin Leadership: Achievements and Unfinished Agendas

Brazil's second economic "miracle" after the high growth rates of the 1970s took a breather in 2012. It was fueled by commodity wealth, aggressive welfare programs and minimum-wage policies. In recent years, economic momentum has been magnified by easily available credit—200 million people, 600 million credit cards—and a "purchase now, pay later" culture. For retail this is the best of all times. An estimated 80 % of Brazil's GDP is tied to consumption. This ratio is higher than in even the most consumer-driven countries in the developed world, among them the U.S. The problem is: The more you spend, the less you save. This leaves less money for investments and the upgrading of your industrial stock. If Brazil wants to consolidate and continue with its remarkable achievements since the late 1980s, it will need more of the ambitious reforms it has implemented since then.

Since its adoption of a new constitution in 1988, Brazil has enjoyed a period of democratic consolidation and economic stabilization. During the current phase of economic transformation, which began with the Real Plan in 1994, the crippling effects of hyperinflation have been significantly reduced and a more business-friendly environment has attracted foreign investors. It has, to a limited extent, improved international competitiveness. President Cardoso started administrative reforms and privatized major state-owned enterprises. He deregulated markets like telecommunications and oil. National treatment of foreign investments was guaranteed in most sectors. The state monopoly in the re-insurance sector ended. A national petroleum agency was created. Its goal is to effectively grant concessions for exploration and production. But fiscal reforms were met with strong opposition in Congress. Public sector debt deteriorated. By 1998, the Real was again coming under pressure from financial markets. The Asian financial crisis in 1997, and the Russian devaluation one year later, led to a crisis of confidence in emerging markets. When foreign currency reserves dwindled, the administration intervened. But despite the IMF stepping in, the Real collapsed in 1999.

Cardoso's government maintained a tight monetary policy and sought to increase public revenues. The devaluation—and a good harvest in 1999—helped to cut the recession short. Business confidence rebounded, growth returned and international investors again poured money into the country. What followed were the policies described earlier in this chapter. The modern history of the country goes back to 1822, when Brazil achieved its independence from Portugal and when it had the lowest GDP per capita of any New World economy, according to Sean Williams (Williams 2011). Only a century after winning independence did Brazil's economy start to show some signs of life. From 1900 to 1980, says Williams, "Brazil grew faster than any other country in the West. The development was driven by rising commodity prices and industrial production. In addition, it was spurred by government programs. But the growth stopped in 1983, when the country defaulted on its debt."

Brazil's often volatile development since the 1960s can roughly be divided into two phases. A military dictatorship from 1964 to 1985, and the New Republic since then. The military junta tried to accelerate industrialization by shielding Brazilian businesses from foreign competition. Vast amounts of money were borrowed to develop infrastructure. When the 1970s oil crisis hit, Brazil had to double its spending on imported oil. Rising rates compounded the increasing debt service payments, after which came default. Without access to foreign capital, Brazil turned to the IMF. The organization demanded a devaluation of the currency, less public spending, a freeze of all wages and reduced subsidized credit. GDP and unemployment fell, inflation rose sharply and for the next two decades the economy barely grew.

In 1985, the military handed power to a civilian government led by José Sarney, who was unable to control inflation. Brazil ultimately defaulted on its foreign debt once more and distrust of the government rose yet again. Four years after the military had retreated from power, Fernando Collor de Mellor became the first democratically elected president in 30 years. He liberalized trade, privatized businesses and set the stage for Brazil's latest growth period. Yet inflation remained a problem until Collor's successor, Itamar Franco, announced the Real Plan designed by future president Fernando Henrique Cardoso. As a result, Brazil started to show more economic discipline and began to attract foreign investment on a larger scale. Lower inflation, rising wages and the influx of capital propelled growth. Cardoso continued Collor's privatization process. He stabilized the banking sector and launched the Bolsa Familia program. During his second term, Brazil confronted yet another serious challenge, the 1999 Real crisis.

Brazil needed to raise interest rates in order to keep currency speculators at bay. Domestic consumption weakened, industrial production contracted and exports decreased. In order to pay for its imports, Brazil borrowed heavily and defaulted for the second time in 20 years. Again, however, Brazil overcame its crisis in a surprisingly short time. Public revenues started to rise again, continued privatization reduced public losses and higher agricultural production kept prices steady. The Real stabilized. In 2002, Lula took over from Cardoso. He continued his predecessor's reforms, gave the central bank more autonomy and managed to lower interest rates. Brazilians started to borrow and entered into a consumer culture. Financial markets in the country expanded massively through the last decade. The stock market capitalization more than doubled from 35 % of GDP in 2000, to 74 % in 2010. During the 8 years before 2004, only six companies went public. In the 8 years since, regulators counted 138 initial public offerings (IPOs).

Looking back over the last 20 years, it appears that Brazil owes a good deal of its stabilization and progress to four major factors: First, it began spending more of its new wealth on infrastructure, even though roads, ports and rails are still one of its largest headaches. Second, the country managed to massively reduce poverty and start to tackle inequality. Third, lower tariffs and a modernized import system made it easier for international companies to sell their products in Brazil. Fourth, judicial reforms started to improve the slow legal system. From 2002 through the following decade the country experienced GDP growth averaging 4.5 % per year. Most of the country's social indicators have shown steady improvement. The number of households with access to tap water rose from 52 % in 1970, to 85 % in 1991. The same is true for the ownership of household appliances such as refrigerators, TVs and telephones. Infant mortality continues declining since it dropped dramatically in the 1970s.

Nevertheless, there remain significant challenges. Analysts, investors and academics point out four main areas in need of improvement. Policy failures are certainly one of them. High government expenditures—fueled by massive social programs—contribute to high interest rates. Brazilian shoppers pay their banks on average 10 % interest per month. Moreover, the country is still too dependent on commodity exports, which leads to a strong local currency and hurts manufacturing. This "Dutch Disease" has far-reaching consequences. Brazil's industrial sector has problems becoming competitive on a global scale, which in turn deepens the commodity dependence. Corruption is definitely another prominent point on the list of policy failures. Transparency International ranks Brazil 69 out of 178 countries.

A second area of unfinished reforms centers on the need to correct failures in the regulatory and legal systems. Among investors Brazil is known as having a complicated tax code, which makes compliance a lengthy and complex undertaking. The National Federation of Industries calls these extra costs "Custo Brasil," which means "Brazil Cost." Brazil is ranked 156 in the World Bank's 2013 Doing

Business survey when it comes to ease of paying taxes. A hypothetical company created by the organization needed 2600 h to fully comply with the existing tax laws. It also takes 152 days to register a new business, as compared to just 48 on world average. Currently, taxes take around 36 % of GDP, which is on par with European economies. Under president Lula the wage bill for civil servants more than doubled from 2003 to 2010. The economic historian Warren Dean thus called for "an end to tax and spend, and more investment please" (Financial Times 2012a). The country's labor laws further complicate business in Brazil. It is nearly impossible to fire workers because of strict requirements regarding justification, and employee laziness or employer bankruptcy are not considered just causes. These are clearly unfinished reforms that need to be addressed in order to attract more foreign investment. Part of the "Custo Brasil" is the heavy load of cases at local courts, which makes them inefficient. Cases have sharply increased since the country passed a new constitution in 1988.

Brazil's progress is also slowed by the remaining social inequality. According to Williams (2011), economic growth could increase by 2 or 3 percentage points each year if poverty were eliminated. He argues that the top 10 % of income earners account for 43 % of total consumption, while the bottom 10 % make up only 1.1 %. In spite of its great successes with social engineering, Brazil is still the eighth most unequal country. Unequal educational attainment directly impacts it. In the OECD's Program for International Student Assessment, Brazil ranks 53 out of 65 countries. The Bolsa Familia Program created only limited improvements in this regard. The country's land distribution problem also remains an obstacle to additional growth, something that is most evident in the favelas of large cities where squatters take up residence illegally on any space they can find. In these poor neighborhoods people lack titles to "their" land, they face discrimination from employers and banks, and they are terrorized by drug gangs.

Brazil's growth is also inhibited by external factors. Heavy subsidies for agricultural products in the U.S. are one factor. Tariffs on sugar-based ethanol from Brazil protect the corn-based ethanol industry in the U.S. Meanwhile China, which has developed an enormous appetite for Brazil's commodities—mostly iron ore and soybeans—has both become the country's largest trading partner and its largest competitor. The low valuation of the Yuan makes manufactured Chinese exports cheaper and creates a disadvantage for Brazilian goods. This creates quite a challenge to Brazil's export businesses. According to Marcos Troyjo, the director of the BRIC-Lab at Columbia University (Financial Times 2012b), Brazil's share of the global economy was essentially the same in 2012 as it was 10 years earlier (around 2.9 %).

Troyjo believes that the emergence of the Brazilian economy "is here to stay" in spite of all its challenges, but that the country needs further reforms in order to keep the "Brazilmania" alive and remain the darling of global financial markets. The competency in biofuels, the prospects of becoming an energy superpower, the thriving agribusiness and the membership in the BRIC grouping have instilled the country with a strong national self-confidence and convinced people "that we are on the right track." But low labor productivity, an "oligoculture" of only a few commodities for export are setting “lower ceilings for future gains,” warns Troyjo. Especially compared with the Asian emerging economies, Brazil seems to be short on necessary investments. Its investment rate, at just 19 % of GDP, is well below Asian levels. Brazil’s economy is driven by consumption, “and not by a trend toward savings and investment as a growing percentage of GDP,” says Troyjo.

7.7 Urbanization in Brazil

One of the reasons for Brazil’s rapid transition to a modern consumer society is the fact that it experienced a very early and quick urbanization. According to the World Bank, over the last 30 years Brazil has become a fully urbanized country. Urbanization has reached more than 80 %. Between 1970 and 2000, the urban system absorbed more than 80 million people. This volatile transition has been exhausting and disruptive for Brazil. It is most visible in the blatant social inequality in its largest cities. Historically, inequality came with the Portuguese colonizers and was fortified by the feudal landholding system that ensued. The adoption of slavery further enforced it. Urban growth in Brazil took place in four distinct periods that altogether transformed the country into the earliest and most urbanized among the BRIC members. The first round of urbanization took place during colonization, the second was late in the nineteenth century, the third unfolded between 1930 and 1980, and the last period has played out since 1980.

In a paper for London’s International Institute for Environment and Development (IIED) in August 2010, the authors George Martine and Gordon McGranahan described precocity and rapidity as the most striking feature of urbanization in Brazil. “Brazil has urbanized quickly and massively in comparison with most other countries outside the first or developed world. By 1950 it had already reached a level of urbanization (36.2 %) only attained in 2000 in Africa and Asia” (International Institute for Environment and Development 2010). It should be mentioned that Brazil’s high urbanization rate is supported to a degree by a generous definition. The administrative seat of any Brazilian municipality is officially considered urban, regardless of its size.

The Iberian colonizers, say Martine and Granahan, were less interested in settlement than in exploiting the riches of their occupied territories. Portuguese and Spanish explorers, therefore, set up an urban system designed to fit their own mercantile aspirations. Since they were interested in extracting commodities for their masters in the New World, they established urban areas that served as supply centers for the ports that organized shipping to Europe. Different commodity cycles from brazilwood to gold, diamonds, rubber, cattle, sugar and coffee led to the development of additional towns and regional centers. By 1872, all ten municipalities with 20,000 or more people were located along the coastline. Even today, maps of Brazil “still reflect the coastal density of the colonial period,” according to the IIED paper. The last great economic cycle of the colonial period—coffee—shifted economic activity towards the state of Sao Paulo in the latter half of the nineteenth century.

Sao Paulo at the time was best at adapting to the abolition of slavery because it attracted massive numbers of immigrant laborers from Europe. Between 1880 and 1930, four million immigrants entered the country. Roughly 70 % of them settled in the state of Sao Paulo. This was the second significant wave of urbanization in the country. The introduction of salaried labor led to more internal migration. The early commercialization of the food production and the construction of railways laid the foundation of the dominance of the Rio-Sao Paulo axis. A third wave of migration was set in motion when the Great Depression and the market crash of 1929 caused a severe drop in the prices of Brazil's agricultural products. Large numbers of people streamed into the center-west region in the 1950s and 60s, and into the Amazon region in the 1970s. Many migrants who had come to Sao Paulo to join the coffee boom switched to the industrial and services sectors, with several families becoming powerful industrial clans. After World War II, declines in mortality rates and high levels of fertility caused a dramatic surge in Brazil's population. The country grew from 33 million in 1930 to 70 million in 1960.

An urbanization rate of around 2.5 %, combined with a rapid population growth of 3.1 % in the 1950s, created explosive urban growth. Brazil's administration feared that poor rural migrants could overwhelm the cities. There was hardly any planning for urban growth. But it happened anyways. The result is a very unequal urbanization where large parts of the population inhabited poorly located and grossly under-served informal settlements. Only recently did pioneering cities like Porto Alegre (participatory budgeting) start to reduce the massive inequalities.

7.8 The Voice of the G20

Brazil's economic achievements have greatly improved the country's external position, according to professor Maria Antonieta Del Tedesco Lins and Leandro Pignatari Silva in a paper on "Brazil and the G20" (Institute of International Relations 2011). They argue that political and economic consolidation, growth and successful social programs have given Brazil an image of a large democracy with a considerable domestic market and a more or less stable setting. "Brazil's participation in the discussion forums of the international monetary and financial order, therefore, should be understood in the light of recent changes in its economy and its performance in the global financial crisis, which conferred it much more of the so-called soft-power, that is, leveraged its moral and material capabilities, even though Brazilian participation in the world economy is still relatively small."

According to the two authors this has allowed Brazil to bring forward proposals on economic reforms and a more credible right to be heard. Timing was in Brazil's favor. The financial crisis of 2008 and its aftermath accelerated shifts in the global economic order and gave emerging countries a louder voice in the international arena. The G20 has since become the most prominent forum on international economic affairs. Formally, it was with the September 2009 Pittsburgh Summit that the G20 became the leading forum for global economic coordination, replacing the G7. In Pittsburgh, the emerging markets agenda gained visible prominence.

President Lula's speech at the summit is evidence of Brazil's new-found position as a leading emerging country that is willing and determined to play its role: "Brazil has the gift of consensus building, an ability to unite differing perspectives, to draw solutions geared toward solidarity and diversity." Lula's demands of the summit were formulated in no uncertain terms: "World leaders need to go beyond emergency measures that leave unchallenged the paradigms that led the world economy to the brink of chaos. The profound and structural solutions that are required must not be postponed. Credit and trade will only resume if trust is rebuilt through a robust and transparent financial system."

Brazil's growing leadership in G20 governance is documented through the summit papers since at least 2004. During the G20 meeting in Berlin in 2004, the country supported a stronger code of conduct on sovereign defaults and demanded that the International Monetary Fund (IMF) needed an adequate crisis prevention facility. At the tenth meeting of G20 ministers in November 2008 in Sao Paulo, Brazil was a decisive force when the G20 agreed that emerging and developing economies should have a greater voice and representation in the Bretton Woods bodies. At the fifth G20 Summit in Toronto in June 2010, Brazil joined Canada and many of the non-G8 members of the G20 to veto France's idea for a global bank levy. After the Pittsburgh Summit Brazil's voice in the G20 became even louder, especially on issues related to exchange rate policies. During the Seoul Summit in 2010, Brazil called for an avoidance of a "currency war." This phrase was coined by Guido Mantega, finance minister under Presidents Dilma Rousseff and Luiz Inácio Lula da Silva, when he attacked the second round of Quantitative Easing (QE2) by the U.S. central bank (Fed) in the autumn of 2010. With its QE monetary policy the Fed massively increased liquidity in the banking system and pushed a wall of money towards the emerging countries, where it led to a punishing appreciation of local currencies, especially Brazil's Real.

7.9 Medium-Term Outlook

More than eight out of ten international investors believe Brazil's attractiveness will improve over the next 3 years. This is one of the main results in Ernst & Young's 2012 Brazil attractiveness survey. Only 2 % of the respondents in this poll expect conditions in the country to deteriorate in the coming years. Brazil's oil and gas sector is the industry that investors put most of their hope into. Almost every second investor believes this sector will drive the country's growth. The business sectors that are expected to contribute most to Brazil's growth—after oil and gas—are tourism, agriculture and food, transport, automotive and consumer goods. When asked how they see Brazil in 2020, slightly more than 30 % expect the country to be a leader in the energy industry, more than 24 % foresee substantially improved infrastructure, and almost 24 % see a leading country in the green economy.

Exolus International Advisory, a Miami-based management consultancy, conducted its own study "Brazil 2020." France Houdard, the consultancy's Managing Director, sees significantly growing wealth for South America's largest economy. Brazil will have the second highest GDP per capita among the BRIC countries, closely behind Russia, says Houdard. He expects per capita disposable income to rise in tandem with China, at about 6 % on average per annum. His reasoning is hardly surprising. Houdard refers to Brazil's leading role as the third largest iron ore producer, its massive manganese reserves, its position as the world's second largest ethanol producer, and as the number one soybean exporter. Houdard filtered out five countries that are larger than three million square kilometers, have over 100 million people and realize more than $3 trillion in GDP (Purchasing Power Parity). The result: Brazil ranks next to the U.S. and BRIC members India, China and Russia. According to Houdard's forecast, Brazil will have surpassed every other BRIC country by 2040 in terms of car penetration (units per 1000 people). In addition, it will become the fifth largest pharmaceutical market by 2015, ahead of France and the UK, and just behind Germany and Japan.

In June 2012, Deutsche Bank Research gave its own short- and medium-term outlook. In its paper "Brazil—Country of the Future!?" analyst Markus Jaeger (DB Research 2012) stated that "extrapolating short-term weakness would be a mistake. He was referring to sharply reduced GDP growth in 2012, due to a slowing world economy. And he cautioned that insufficient investment in Brazil might limit its growth potential in the years to come. According to Jaeger, an investment ratio of less than 20 % of GDP is not sufficient to generate more than 5 % GDP growth over the medium-term. As a comparison: Investment in China amounts to 45 % of GDP, in India it reaches 35 %. But the research paper listed a number of favorable factors that should help to fuel domestic consumption in the coming years. Historically low unemployment is one of them. A second driver is solid job creation and income growth. The paper also mentions solid bank lending, which is supported by policy lending. Jaeger argues that Brazil is, somehow, a prisoner in a self-enforcing cycle of weak exports and declining industrial competitiveness. "Weakening export demand & declining competitiveness is hurting manufacturing & weighing on investment and growth."

On the other hand, Jaeger appreciates some strong economic fundamentals, among them a favorable declining trend of government debt as a percentage of GDP, and the fact that Brazil has turned into a net external creditor sometime after 2008. Commodity prices and "overly aggressive policy lending" are listed as possible downside risks, while declining interest rates, rising investment and ongoing structural reforms are weighed on the upside. In DB Research's baseline scenario no major structural reforms will get passed in Brazil before the 2014 elections, but the government will be able to keep up and support domestic demand and industry growth. The forecast for Brazil's medium-term 5-year real GDP growth is 3.5–4.0 %.

On the other end of the prognosis spectrum are forecasts like the one coming from James Dale Davidson, a columnist for Newsmax's Financial Intelligence Report newsletter. Davidson expects that "Brazil will be what America was." His reasoning: Inward migration, upward mobility and a continued commodities boom. "Brazil is going to be in this century what the United States was in the last couple of centuries, where it was a place where people could come from any place in the world, integrate themselves into society and make a good future for themselves." Some observers see Brazil on a course that will be the opposite of China's path. While China's leadership will have to shift the demand that is driving its economy from exports to domestic consumption, Brazil will need to go the other way round: Lower the share of internal consumption, raise savings and investments, and increase the emphasis on exports, promoting homegrown brands. But even with a lower percentage of domestic demand to GDP, the overall demand in Brazil will grow significantly in absolute terms. This is due to rising incomes, ongoing urbanization, better education and an improved competitiveness of its manufacturing sector.

7.10 Foreign Investment

"Three years ago, my position was based in Miami and now it is in Brazil, the world's second top office in terms of results," says Ricardo Amara, the Chief Executive of the cruise company Royal Caribbean International. Brazil's growing middle class, as well as rising incomes and reduced inflation have created so much more demand for brands and services that over three quarters of major brand owners in Ernst & Young's attractiveness survey see increasing opportunities in South America's biggest economy.

Even though the crisis in Europe and the slowing world economy have reduced GDP rates in Brazil recently, investors seem to have no doubts about the long-term growth story. In 2012, Honda Motors announced that it will roll out its Acura brand in Brazil starting in 2015. The Japanese carmaker is joining European and American competitors who are aiming at the luxury car market in the country. Brazil has become a good place to sell luxury goods. Germany's BMW is convinced as well. The Munich-based company decided in late 2012 to invest roughly $261 million in a factory in Brazil. And in September 2013, Volkswagen Group announced that it will re-start the local production of Audi branded vehicles in Brazil. Around the same time, Apple confirmed to Brazilian newspaper *Terra* that it would be opening its first store in the country.

Germany's Otto Group, the largest mail-order company in the world, is joining other companies in a $130 million fund to invest in Brazil's booming startup-scene. The commitment is proof of the country's growing attractiveness for technology investments and for large-scale retail activity. Meanwhile, US private equity group Carlyle is adding Tok Stok to its portfolio with a $346 million investment. Tok Stok is seen by many as Brazil's answer to Ikea. This very innovative self-assembly furniture company once launched a Twitter campaign to demonstrate that instruction manuals for their pieces can be written in under 140 characters. They have also used board games and puzzles to illustrate the ease with which their furniture can be assembled. UnitedHealth Group, the biggest health insurance company in the US, agreed in October 2012 to pay $4.9 billion to buy 90 % of the insurer and hospital chain Amil Participacoes SA. In Brazil private insurance membership is surging, while U.S. enrollments in the industry are dwindling. Amil is Brazil's biggest managed-care company. According to UnitedHealth CEO Stephen Hemsley Amil is "the most compelling growth and value creation opportunity we have seen in years" (Bloomberg 2012).

Brazil's leading online bookseller Saraiva is in the crosshairs of Amazon, which is contemplating its debut in Latin America's fastest growing e-commerce market, according to reports. And Microsoft is envisioning Brazil as an emerging technology hub. The software maker aims to create a technology center in Rio de Janeiro, the head of the U.S. company's Brazil division revealed in November 2012. The planned Advanced Technology Laboratory in Rio will be Microsoft's fourth facility of this kind worldwide, and its first in Latin America. After Brazil recovered from the financial crisis of 2008 quickly, the rebound in foreign direct investment was up again despite the global economy weakening. For some time the rebounding FDI even covered a widening current account deficit, a broad measure of foreign transactions, including trade in goods and services, interest payments, profits and worker remittances.

These most recent examples are ample proof that interest in Latin America's largest economy remains strong. "Foreign companies are still seeing Brazil as a country with good prospects," say analysts at LCA Consultores, a consultancy in Sao Paulo (Reuters 2012). According to the Brazil attractiveness survey, 59 % of the $62.9 billion in FDI committed to Brazil in 2011 went into the industrial sector, financing a total of 190 projects with almost 121,000 jobs. That was three-quarters of the country's total new FDI jobs, with an average of 636 jobs per project. Most of the investor money targeting manufacturing goes to industrial machinery, equipment and tools, automotive and metals.

7.11 The Rise of Local Brands

When Dilma Rousseff paid a state visit to Washington in April 2012, there was great excitement. The presidents of both Harvard University and MIT (both women at the time) invited her to Boston. The US Chamber of Commerce arranged a meeting with the Brazilian president, "who leads an economy larger than Britain's, commands an ocean's worth of oil, and enjoys a 77 % approval rating her American counterpart can only fantasize about," as the British newspaper Guardian acknowledged (The Guardian 2012a). The exception, the daily paper claimed, was US President Barack Obama who only had a relatively brief meeting with Rousseff. During the following press meeting the two presidents never looked each other in the eye.

And the only real improvement for bilateral trade that came out of this strange meeting was a deal to promote imports of Brazil's favorite spirit cachaça, used in the caipirinha cocktail as Brazilian rum. Producers of the brand in the South American country had complained for years that their rum had fallen victim to an American tax regime which is designed to subsidize US-based rum manufacturers and, therefore, make it harder to market cachaça as something special to US consumers.

After roughly 20 years of political and economic stabilization, high growth rates and an accelerated industrialization, Brazil has much more to offer to world markets than just ingredients for cocktails. Brazil itself, with its recent successes, is regarded by many as a brand in its own right, representing one of the largest emerging markets, plus vitality, diversity, joy of life and lots of confidence in its future. If you ask soccer fans, Brazil might have created its first international brand back in 1958 when it won its first World Cup in Sweden. For music fans, it might have been the wildly popular Bossa Nova music that so marvelously symbolized Brazil's swing and optimism. For marketing executives, the first global luxury brand out of Brazil could be Osklen, the sportswear maker which was founded in 1989 by an orthopaedic physician called Oskar Metsavaht. The company's 2011 revenue is estimated at somewhere between $170 million and $230 million. Metsavaht is said to plan on increasing the company's exports to at least 15 % of total sales, from 5 % currently. In early 2012, Osklen had 63 wholly-owned stores in its home country and 10 abroad. It currently sells its products to 30 countries, among them Italy, Portugal, Japan and Switzerland. With a rising presence in High Street fashion stores and regular attendance on prominent catwalks, Osklen has become one of the leading sportswear brands in the world.

And it is not the only well-known Brazilian fashion brand. Beyond the bikinis, Havaianas and Victoria's Secret models there are many other established brands in the business, among them Issa, Carlos Miele, Alexandre Herchcovitch and Lucas Nascimento. Fashion, say some insiders, has become a means of cultural expression in Brazil, which, as *The Guardian* (2012b) once enviously stated, "already possesses a monopoly on all the good things in life—beaches, sunshine, carnival and caipirinha." The fashion industry in the country has reached annual revenues of $63 billion. At that size it is already the fourth-largest textile producer in the world and employs some 1.7 million people. *Vogue Brazil* has now a readership of 345,000. But the challenges the industry faces are vicarious of the whole economy in Brazil: High import duties, costly taxes and limited technical know-how are creating barriers to transforming the huge domestic fashion market into a global one. But with the FIFA World Cup and the Olympics in sight, the new home grown brands are trying even harder. "Brazil has always absorbed cultures from around the world, now it's time to take our globalized personality to the world," explained Evilasio Miranda Costa of Brazil's fashion industry export initiative Texbrasil (The Guardian 2012a).

Fashion is not the only industry where home-grown Brazilian brands try to go global. Consider Predicta, one of Brazil's first and most influential tech start-ups. Predicta announced its expansion into the US in 2012, when it launched its latest product SiteApps, designed for small and medium-sized enterprises to easily select tools they need in order to transform their websites into a dynamic online presence. Predicta has gathered more than a decade of experience by powering the advertising and marketing initiatives for global brands. The energy sector is yet another example. Brazil's national oil giant Petrobras has started an expansion that many in the business see as representing the largest global business opportunity in the oil and gas sector until the end of the decade. The offshore oil deposits that were discovered in 2006 and 2007 may well exceed 60 billion barrels in recoverable reserves. That would place Brazil among the world's top ten producing countries.

Besides the aviation industry with the front-runner Embraer, Beauty is another well-known sector where Brazil has made its mark on the world stage. Gisele Bündchen is leading the global ranking of the best-paid top models in the world. Her annual income is estimated at $45 million. Super model Alesandra Ambrosio—also Brazilian—has also made it into the top ten of the Forbes list ranking the highest earning models in the world.

Many Brazilian brands that are in the top of their international leagues and have become trend setters in their field remain largely unknown to people outside of the industry. One example is FB Collection, a beach-style fashion brand that celebrates the increasing attractiveness of Brazil-liness, especially the vibrant Carioca (people from Rio de Janeiro) culture. FB Collection has made soap opera legend Sylvia Bandeira one of their brand ambassadors. Another rising star among Brazil's local brands is Natura, the leading manufacturer and marketer of cosmetics. The company emphasizes natural and socially responsible products. Its main characteristic is its green image. It creates its products from raw materials that were gathered through sustainable methods from the Brazilian rain forest. Natura has turned itself into a proponent for fighting the global environmental crisis and has become an innovative narrative in the global cosmetics market. Natura is seen by industry insiders as an example of Brazil's growing ability to create international brands. It communicates Brazil's natural beauty and energy with confidence, and it has prepared its global campaign with an expansion into cosmetic-hungry neighboring markets like Chile, Argentina and Mexico.

TAM, the largest airline in Brazil and Latin America, is another local brand champion. Fueled by rapidly growing income for traveling, TAM is one of the leading travel brands. Banking has its own brand champions too. Bradesco and Itaú Unibanco are among them. With the tailwind of large and successful social programs they are now even branching out into favelas and other poor neighborhoods. Itaú's merger in 2008 with Unibanco shook the local banking industry. It was the largest in Brazilian history. Right after the merger the new bank made the list of the world's top 20 banks by market capitalization. Itaú is a word from the Tupi Guarani language of the Tupi, one of the main ethnic groups of Brazil's indigenous people, and it means "black rock." With a distinctive orange-colored identity and a strong, easy to pronounce and short name, Itaú has favorable characteristics that enable it with cross-border potential. Itaú is focusing heavily on Brazil's rising middle class by offering credit cards to customers who so far have lacked access to bank credit.

On their website "The Brazil Business," (2014) Cynthia and Egil Fujikawa Nes, who founded Connection Consulting in Sao Paulo in 2008, list "The 20 Greatest Brazilian Brands." Currently on top of the ranking is Petrobras, followed by Brazil's second largest private bank Bradesco, which has become quite popular among lower income citizens. Itaú is ranked third, followed by Skol, the country's number one beer in sales. Skol became very successful partly through its unique marketing campaigns. It put its yellow Skol fridges in bars and markets throughout

Brazil and started to promote parties and shows. By selling expensive tickets for such shows as "Skol Beats" and "Skol Sensation"—which brought 40,000 people to the Anhembi Stadium in Sao Paulo—Skol has attached distinct elegance to the brand and distinguished itself from competitors that sell cheap beverages to drink at the bar. Natura is sixth on the list, followed by Brahma, the second most consumed beer in Brazil. While Skol is targeting a younger, aspiring audience, Brahma was established as the beer of the botecos and bars in Brazil.

Vale, one of the leading mining companies of the world with operations in more than 25 countries, is ranked eighth. Vale (full name: Companhia Vale do Rio Doce) is the second largest mining company in the world and one of the leading logistics operators in Brazil. It is the global number one in iron and pellets, and the number two in Nickel. Vale, which is headquartered in Toronto, Canada, was founded in Itabira, Minas Gerais as a public company by the Brazilian Federal Government on June 1, 1942. Next on the "Brazil Business" list is Sadia, one of the world's largest producers of frozen and chilled foods. The company is considered one of the darlings of Brazil's food market. It is famous for its mascot, a cute little cartoon chicken. Sadia is a good example of how fast local Brazilian brands are developing. In late 2012, the brand value was 83 % greater than it was in 2010. There is one more Brazilian brand champion: rubber sandals maker Havaianas has further developed its global brand footprint and today is 20 % above its 2010 brand value level.

When research agency Millward Brown presented its inaugural BrandZ ranking of the 50 most valuable brands in Latin America in August 2012, Petrobras topped the list, with four more Brazilian brands in the top 10. Bradesco and Itaú were ranked third and fourth. According to the company, the listing shows that local Brazilian brands "are gaining a foothold on the regional and international stages" (Millward Brown 2012). The research agency tries to capture the factors that are helping to make Brazilian brands grow so fast. One of the reasons mentioned is the fact that Brazilians seem to be the most loyal customers in Latin America. According to the ranking's description, 65 % of Brazilians say they stick with brands they like. Second, "general economic stability has moderated the debt and currency devaluations that periodically troubled the region in the past." Moreover, the ratio of people who say they feel financially safe is rising visibly.

A short description of Brazil's rising local brands is not complete without the successful footwear industry. Brazilian shoes are now worn by women everywhere from New York to Shanghai. The two leading companies are Grendene and Havaianas. Grendene started creating headlines in the late 1970s, when it launched innovative sandals made of injected plastic. Grendene was the first footwear company to place products on Brazilian soap operas. By the mid-1980s the company was already well established outside of Brazil. Stores all over the world have stocked brands like Ipanema, Gisele Bündchen, Rider and some children's character shoes. Grendene is now exporting to around 90 countries. In 2007, it shipped 40 million pairs of shoes. The Melissa brand is present at thousands of points of sale in 50 countries. In 2011, the shoe manufacturer came up with another major innovation when it teamed up with Italian Designer Gaetano Pesce and launched a new range of boots from its Melissa brand that can be customized according to customer. Havaianas is most famous for its flip-flops. They are based on the design of the Zori, a type of sandal made with fabric straps and rice straw soles which is worn by Japanese immigrants in Brazil.

The shoes were first designed as cheap footwear for the country's peasant workers. As early as in the 1990s, the first Brazilian television stars appeared in commercials wearing the different models. In 1998, an exclusive model was created for the World Cup with a small Brazilian flag on the strap that instantly became popular as a symbol of Brazilian pride. Since 2003, the sandals are a promotional part of the Oscars, with exclusive models being given to all nominees. No wonder that Havaianas premium models have become a must-have accessory for the world's rich and trendy. Even Hollywood stars love Havaianas. In 2011, the company opened its first-ever pop-up shop in Los Angeles. The Havaianas Mercado at 1520 North Cahuenga Boulevard in L.A. is inspired by the traditional market places in Brazil and even has cool graffiti murals on its walls. Among the celebrities who cherish their Havaianas are Jennifer Aniston, Eva Longoria, Gwen Stefani and Lindsay Lohan. Since May 2012, the flip-flops can even be purchased from vending machines along Sydney's famous beaches.

Most of these local brands are growing so quickly that they constitute serious competition for international brands finding their way into the country. The reason is simple: Pride in Brazil and optimism about its future have strengthened the national identity. Local beauty brands have grown faster than most of the multinationals over the last 5 years. And flip-flops from Havaianas may be the best example for what Simon Clift, former Unilever Chairman for personal care products in Latin America, says about the rising Brazilian champions: "Brand Brazil is easy-going, sensuous and sexy" (BrandRepublic.com 2012).

7.12 Brazil's Emerging Middle Class

Soap operas have become an immensely popular genre on Brazilian TV. The shows are so successful that during prime time they attract more than 40 million Brazilian viewers. During some of the shows, President Dilma Rousseff was reportedly wondering whether she should cancel her appearance at local election rallies for fear of a ridiculously low turn-out. Professional teams in soccer and volleyball have even moved their practice sessions in order to watch some of the episodes. "Avenida Brasil" was the undisputed hit soap opera during the last couple of months. Just recently, the operas have started to mirror the nation's newfound economic success. The 9 pm soap on Globo TV, the second largest TV network in the world by revenue behind America's ABC, has started to incorporate the new middle class into its script. Avenida Brasil is focusing on characters that are living in the suburbs of Rio de Janeiro. Traditionally, the "soaps"—or novelas, as they are called in Portuguese—have focused on glitzy neighborhoods in Rio and Sao Paulo, where most of the rich and affluent reside. But the new middle class has now become the largest income group within Brazil's society.

These individuals are the thriving backbone of the new consumer economy. So marketers and soap opera script writers have begun illustrating the way they live, including their tastes, habits and values. Avenida Brasil is so successful that it has reached a market share average of 30 % in the greater Sao Paulo region. Screen writers are not the only profession that has turned its focus on the new Brazilian middle class. With their rise, the country has become a fantastic laboratory for marketing researchers, brand manager and advertisement executives. Besides high growth rates, anti-poverty programs such as the Bolsa Familia and the strength of the Brazilian Real, it has been mainly the exceptional growth of new companies that has catapulted the number Brazilian income earners and increased their wages. In 2000, there were 4.2 million small businesses with less than 100 employees in Brazil. Ten years later, there were 6.1 million such companies, and the number of larger companies had doubled to over 60,000. The rise of the middle class is the most impressive part of Brazil's recent success story.

More advanced than the new middle class is the established "upper middle class" or C-class according to the Brazilian definition. This C-class earns between $600 and $2600 per month. The C-class now constitutes 52 % of the population, based on a government report released in November 2012. The largest regional expansion occurred in Brazil's Northeast, where the middle class share of the population rose from 22 % in 2002 to 42 % in 2012. In the Southeast of the country, the share of the middle class grew by 11 % points to 57 % during the same period. Ten years ago, on a national level, the share of the middle class was at 38 %. By 2014, around 60 % of Brazilians will fall into the middle class bracket, according to several economists. One of the think tanks making such forecasts is the Instituto Target at the Getulio Vargas Foundation, which expects the share of the middle class to grow to over 66 % within the next 5 years. If it were the population of a single country, Brazil's middle class would now rank 18 among the top 20 consumer countries in the world, according to the "consumption G20" based on World Bank data. "If Brazil's middle class formed a country, it would be the twelfth largest, behind Mexico," said Minister Moreira Franco of the Presidency's Department of Strategic Affairs in September 2012.

Based on a World Bank report released in November 2012, the middle class in Latin America grew by 50 % over the past decade. In this report the middle class is defined as having an income of $10–50 per day at purchasing power parity exchange rates. Brazil accounted for about 40 % of the growth. These numbers indicate that for the first time the middle class rivals the poor in numbers in the whole region. The big story for marketers and brand managers is not the size of the middle class alone. It is the fact that, according to the World Bank study, rising income levels in Latin America have created a "vulnerable" class, which accounts for 38 % of the region's population.

These are people who are not yet middle class and may, in some cases, fall back into poverty. The World Bank estimates this potential downward mobility to have a probability of around 10 %, but otherwise attests a "substantial upward economic mobility." The members of the "vulnerable" class are next in line to join the rising middle class. Transforming Brazil into a middle class population is one of the great achievements of the country, according to Dilma Rousseff. This achievement is now driving the growth of brands in the country. And the whole perception of these consumers has changed dramatically. For several years, the middle class was treated by sales managers and marketing executives as if it represented limited sales potential. These consumers were served with simple packaging, smaller sizes and sometimes not considered at all.

But now this has all changed. While 5 or 10 years ago products like dairy cream, body creams, chocolate and yogurts were only purchased occasionally, they are now part of the habitual grocery list. Beauty and cosmetic department pop up even in stores with lower income clients. Salons are opened outside swanky neighborhoods. Spending on appearance has now become a tool in the endeavor of social inclusion. Economic and political stability, as well as the greatly reduced inflation, have increased the access to aspirational consumer goods. This trend is supported by the ready availability of bank loans. If a low-priced car can be paid in 60 installments, it looks much more affordable. The Nova America Rio de Janeiro shopping mall sells 400 cars on average every weekend. Buying on credit and installments is a significant driver. The influence of credit is massive, even for low-priced products. “Brazil is probably the only market in the world where you can buy a t-shirt and pay for it in six installments,” explains Alberto Serrentino, a senior partner with GS&MD, who has implemented projects in strategy, marketing, merchandising, sales and operations for several leading Brazilian retailing and consumer goods companies.

Brazil's new middle class does not only display strong upward mobility, it also shows remarkable resilience in the face of growing global economic headwinds. A March 2012 study on the “European Crisis and the New Middle Class in Brazil” (Fundacao Getulio Vargas 2012) by the Centro de Politicas Sociais at the Getulio Vargas Foundation, stated the following: “The European crisis did not reach Brazilian wallets. In the 12 months ended in January 2012, poverty fell 7.9 %, three times faster than the UN Millennium Development Goals'pace.” During the same period, according to this study, Brazil's Gini coefficient—a standardized measure of inequality—fell 2.1 %, which was almost two times faster than during the 2000's, “which was known as the decade of inequality fall.”

The rapid growth of wealth and prosperity in Brazil has led to significant changes in consumer behavior, which will be analyzed later in this chapter. One of the industries where this is most visible is food and beverage, with restaurants and grocery stores being a spectacular growth area. The out-of-home food market in Brazil has grown on a double-digit basis for many years. An average Brazilian consumer eats more than 30 % of all meals away from home. According to studies, more than 80 % of the metropolitan population eats out at least once a week.

7.13 Income Classes and Segmentation

"Most retail companies look at Brazil and they see a nirvana," says local retail expert Alberto Serrentino. "They compare the size of the Brazilian economy with the U.S. or Europe and they project figures onto the Brazilian market. This is a huge mistake." According to Serrentino the enormous variety of different social classes and the disparity in consumption across a huge territory needs to be taken well into account for effective brand positioning and marketing. "We have 5565 cities in Brazil," he says, "and only 3 % of those account for 50 % of the consumption. The market is big, it's growing, but it's concentrated." For international brands in Brazil there is good news in this disparity. It means that the relatively untapped North of the country is offering strong opportunities for future growth.

The Brazilian society is officially segmented into five different classes that originated in the 1950s, when the country experienced another boom. Although some scientists consider the concept of social classes to be an outdated approach, marketers and brand strategists find it a very useful tool for navigating what Serrentino calls "nirvana." The method most commonly adopted by the market classifies society according to letters from "A" to "E." The highest income class is A. According to the official segmentation people in class A have a monthly gross income of more than $4990 (all numbers converted from Brazilian Real at an exchange rate of 1 BRL for $0.489). In class B, incomes are above $2500 per month. Class C is defined as an income above $997. Class D is higher than $498. Class E income is below $498.

Class A usually includes bankers, investors, entrepreneurs, major landowners and people who offer extraordinary skills for the manufacturing and services sectors. In class B there are directors, managers, politicians, judges, professors, doctors, engineers and lawyers. Class C is mostly composed of those who provide services to people in wealthier income segments. Among them are teachers, mechanics, electricians and nurses. Members of social class D can be housemaids, bartenders, bricklayers, construction workers, small store sellers and drivers. In class E you find people who earn minimum salaries: Cleaners, street sweepers and also the unemployed. In Brazil's North and Northeast, as well as in the Central-West regions (except Brasilia) classes D and E are predominant. Most of classes A and B reside and work in Sao Paulo or Rio de Janeiro. The differences between those classes are most visible in large cities like Rio and Sao Paulo, where there are people from all five classes.

In terms of education, classes A and B are usually composed by those with higher education. The younger members in these segments are often fluent in different languages. In class C, the chances are high that members finished high school. Many people in this segment have completed higher education, or have at least a technical degree. In class D, most of the members have not finished high school. In class E, many people have not finished elementary school or are illiterate.

Most groups within this segmentation overlap with other groups to a certain degree. But they have distinguished lifestyles and value orientations that set them apart. Among the highest income earners—the rich, the sophisticated and the influential—there are many top managers and entrepreneurs who clearly focus on career and money. In the emerging middle class you will find upwardly mobile rural Brazilians as well as social aspirants who tend to focus more on the comfort of their lifestyle and receiving good education. Many urban residents with rising wages are on the edge or close to joining higher income levels. And many within rural Brazil are still socially vulnerable.

If there is one overriding character within all these classes, it is strong upward mobility. The Getulio Vargas Foundation in its paper on the country's new middle class projected that poverty in Brazil would fall 40 % and the A and B classes would swell by 40 % between 2003 and 2014. They also predicted that an additional 12.5 million people would join class C between 2011 and 2014. In the top income classes A and B they predicted an additional 7.7 million Brazilians during the same period, as compared to an additional 9.2 million between 2003 and 2011. In other words, the growth in absolute numbers of people in classes A and B has doubled since 2011.

Class C has now become Brazil's largest consumer set. It drives the sales of cars, homes, cellphones and electronics. It has emerged as the prime target for domestic and internationals marketers. Shopping malls in Brazil's largest cities now generate more than 50 % of their sales from class C. Classes D and E now account for 25 % of Brazilians. The top income segments are sizable: Class A and B represent 21 % of the population. Class C is composed of 53 %. Between 2005 and 2010, the two lowest income segments, class D and E, shrank by 50 % to less than 48 million people. Class C grew a staggering 62 %, to 101.65 million. In classes A and B, the members rose from 26.4 to 42.2 million people, a growth rate of 59.7 %. This means that the middle class, represented by the C segment, is rising faster than any other class, including the rich and affluent. According to official numbers, in 2010 alone 19 million Brazilians "graduated" from classes D and E to class C. It is very important to take note of the fact that an impressive 45 % of class C Brazilians are already active on social media. Thus, more and more digital marketers are focusing on channels like YouTube, Twitter, Orkut and Facebook.

Catering to the unique needs of the different classes will decide over the success of domestic and international brands in Brazil. For this reason, domestic competitors with their intimate market knowledge need to be taken seriously. Precise navigation through different income classes and their respective purchasing habits can absolutely make the difference. After the Casas Bahia retail chain realized that class C customers love furniture with mirrored doors—because it makes their small homes look bigger—its sales sharply took off. Conversely, this also means strategies that worked for classes A and B cannot simply be applied to class C. Differentiation is essential.

The World Bank has termed the upward mobility in Latin America's social classes "extraordinary." According to its own calculations, at least 43 % of all Latin Americans changed social classes between the mid-1990s and the end of the 2000s. During this period, just 2 % of those observed by the World Bank economists experienced a downward class transition. Upward mobility is not only moving Brazilians into higher paying jobs. It also means higher pay if you stay where you are. Unemployment in Brazil has become so low during the boom years that poor women, who for decades formed a veritable pool of cheap labor for the A, B and C classes, are now pursuing better-paying and higher-skilled jobs. The result: Supply of domestic helpers is shrinking. For the remaining nannies, maids, cooks and drivers this means they can ask for wage increases, in many cases at more than double the rate of inflation. This trend goes back to the middle of the last decade.

In its paper, the Getulio Vargas Foundation used a revealing analogy. It claimed that in the terms of a La Fontaine fable, Brazilians are more like grasshoppers than ants. “The good news is that as we work on our collective problems subject to externalities and coordination problems, Brazilian society will be able to leap ahead. By collective problems we refer concretely to the lack of democracy, inflation, inequality, informality, lack of basic sanitation and violence. As long as Brazil addresses these earlier legacies, Brazil will no longer be the country of the past that considers itself country of the future, and it will be able to become the country of the present.”

For large retailers it already is. The first retail chains, among them Casas Bahia, are even starting to open stores in the country’s favelas. They are attracted to the slums by improved security, rising incomes and the expanded credit market. This means that even the former no-go areas, Brazil’s shanty towns, traditionally ruled by drug gangs and poverty, are now emerging as a potential sphere in the rising consumer society. There is logic behind this reasoning: Even in the favelas, many residents have gained income status based on the official income segmentation. For example, around 56 % of the 12 million people who live in slums like Rocinha, the largest favela in Rio de Janeiro, were considered middle class in 2011. This was up from 29 % in 2001. These numbers are based on a study by the Instituto Data Popular, a research group in Sao Paulo. Since 2010, even commercial banks like Bradesco and Santander have started to open branches and target residents in the favelas to increase their profits. In May of that year, Santander even opened a branch in the “Complexo do Alemao,” a slum that is so dangerous locals call it the “Carioca Gaza Strip.” The banking business in these slums is driven by a growing demand for bank accounts because of the rise in formal jobs and because of micro-credits for new businesses like bars, grocery stores and water distribution. The tripling of the minimum wage between 2002 and 2013 has dramatically increased spending power even in the favelas.

Casas Bahia competitor Ricardo Eletro opened its first store in Rocinha in October 2011. The expansion of the organized retail sector into Brazil’s favelas is the result of an ongoing security campaign. Special government forces took control of Rocinha in 2011. They expelled drug gangs and started to permanently control the slum. Rocinha was the twenty-eighth favela that was pacified in Rio since 2008. Many more are slated to be occupied by security forces towards the 2014 World Cup. The opening of this last consumer frontier in Brazil is no surprise, given the results of a study released in September 2012 by the government’s Institute for Applied Economic Research, known as IPEA. According to the study, the poorest 10 % of Brazil’s population saw their incomes rise 5.5 times faster than the richest 10 % over the past decade. According to the Data Popular study, more than $6 billion in retail turnover move through Rio's favelas annually, with double digit growth rates. Brazil still has some of the world's worst income inequality, but things are changing very fast.

7.14 The Rich and the Super Rich

Brazil has the highest number of high-net-worth individuals (HNWIs) in Latin America, and the highest among the BRIC countries. HNWIs are people with investable assets of at least $1 million. By 2011, there were just over 194,000 HNWIs in Brazil. They had a combined wealth of $951 billion, which accounted for roughly 29 % of Brazil's total wealth ($3.3 trillion). Their largest asset class is real estate with around one third, followed by equities, cash and business interests. It is interesting to notice that Brazil super rich hold only 22.1 % of their wealth outside of the country, which is below the global average of close to 30 %. In other words: Big money in Brazil is comparatively loyal and inward-oriented, which gives this market extra flavor in the eyes of marketers.

As a reliable indication of how far and wide the ranks of the rich have spread, Brazil's government started a tax crackdown on the country's millionaires in autumn of 2012, informing luxury boat owners that its tax authority was starting to assemble a team of 30 specialists, supported by boats and helicopters, to inspect foreign-made yachts and other "suspect vessels." Brazil is a dream story for high-priced leisure goods like yachts. Its warm climate, a long coast line and the growing economy are attracting shipbuilders as well as boating enthusiasts. The total value of imported motorboats, sailboats and jet skis has risen tenfold between 2006 and 2010, to $133 million.

No wonder that the world's biggest and most famous brands are lining up in droves for this market. For quite some time the growth of luxury sales in the country was slow. Many Brazilians travelled abroad in order to buy luxury goods, preferably to Miami or New York. Others asked their friends to bring some home for them. But now everything is changing fast, as insiders like Emanuel Chirico acknowledge. Chirico, chairman and chief executive of Phillips-Van Heusen, who is in charge of Tommy Hilfiger and Calvin Klein, attests: "Brazilian consumers are increasingly interested in global brands. We see this in our growth there, as well as in the U.S., where Brazilian consumers are our number one international shopper." In 2011, Brazil's luxury goods market was valued at over $7 billion, based on data from Euromonitor International. This was almost five times the volume of luxury sales in Mexico, which is Latin America's second largest economy. But still, Brazil's luxury market is five times smaller than China's, and only 1 % of the global market. Yet it has more than doubled since 2006, growing on average 22 % per year. At this pace it grew even faster than its own general retail sales.

According to industry experts there are around three million consumers on top of the Brazilian income pyramid, who can afford to buy luxury goods. The "Global Wealth Report 2011" counted 24 billionaires and 155,000 millionaires. One third of the latter is under the age of 35. Brazil has now more super-rich individuals than Spain, which takes the Latin American country to the 11th position in the world table of the super-rich. No surprise then, that Sao Paulo has more helicopters than any other city in the world. As a market for luxury brands, Sao Paulo is the leading place in the country. It might rather be humor than envy that people in Rio are joking that "Paulistanos" (people from Sao Paulo) love to shop so much because they have no beach. Anyway, in Sao Paulo's top shopping districts like Jardins, or in leading shopping malls and department stores like Iguatemi or Cidade Jardim, almost all of the world's best-known luxury brands are already on show—and in high demand. To get an impression, it is best to visit the famous Iguatemi shopping mall that even sells yachts, helicopters and super sports cars in a 'luxury toy' store on its top floor.

By the end of 2012, more than 100 new malls were under construction to open by 2014, at a combined cost of $3.3 billion. In Brazilian retail, malls are comparatively more important because in most local markets there is no tradition of upscale department stores, and street crime is pervasive. This is why even most coffee shops in Sao Paulo have security guards.

Western luxury is still rather new to many rich Brazilians, and they are not content with only buying prestigious products. They also want to be seen to be spending big. The more expensive the brand, the better. Sao Paulo is now the only city with four Tiffany & Co. stores and is home to Louis Vuitton's most profitable store worldwide. When business insiders refer to Brazil's rapidly rising demand for luxury goods, they like to call it the "Samba Surge." This wave of high-end demand from Brazil is even fuelling luxury goods industries overseas. Harrods, Mulberry and Burberry in London each count on customers from Brazil (as well as China and Russia) for a visible share of their annual business. The story is no different for luxury goods retailers in Paris, Milan and New York. If the Real continues to weaken, this demand will further shift to the domestic market, making Brazil even more attractive for foreign brands eyeing this BRIC country. For Tiffany's and Gucci, Brazil is already among their top performing markets worldwide. Goldman Sachs is forecasting Brazil's luxury market to represent 6 % of the global market—or $63.5 billion—by 2025.

7.15 The Retail Landscape

Brazil is a Mecca for malls. Rising wages, an expanding middle class and banks that are increasingly comfortable at handing out longer-term consumer loans, have helped to boost this market to annual turnover of $230 billion. As recently as early last decade, growth in consumer lending was almost non-existent. Ten years later, the credit market in the country constitutes almost 50 % of GDP, according to the Central Bank of Brazil. The expansion of easy credit has significantly changed how Brazilian consumers purchase goods. Around 60 % of the national retail sales are conducted by using credit cards, debit cards or loyalty cards. Organized retail—usually chain stores and large department stores—make up almost 40 % of the retail landscape.

By this measure, Brazil is ahead of its BRIC peers when it comes to organized retailing. Organized retail in Brazil can be traced back at least 60 years. The current market leader, Companhia Brasileira de Distribuicao (CBD), now under the control of French retailer Groupe Casino and better known as Pao de Acucar, started as a small bakery in 1948. Carrefour, entering Brazil as early as 1975 (before even China started its reforms) was one of the early movers in the country as a foreign investor. Even though home-grown competitors like CBD and apparel retailer Lojas Renner have grown faster than foreign competitors in recent years, Brazil has already become the most internationalized retail market among the BRIC countries. The top ten retailers dominate almost 60 % of the whole market.

Malls are starting to play a very unique role in Brazil's retail landscape. Due to a general lack of department stores, parking space and security, the malls have evolved into lifestyle biotopes that function as full-fledged entertainment and shopping centers, offering a secure and air-conditioned oasis insulated from a turbulent street environment, where thieves, tropical heat and heavy rains can be a real challenge. At Rio de Janeiro's Riosul shopping mall, there are 100 security guards working in three shifts, many more than in comparable U.S. malls. The success of Brazil's mall culture is so overwhelming, that brands such as Marc Jacobs and Giorgio Armani have closed their freestanding stores in Jardins—the high end shopping district in Sao Paulo—and reopened in malls. "Every time we hit a new market, we adapt to local culture," explains Daniela Valadao, brand manager for British women's fashion brand Topshop in Brazil, "here, people are much more used to going to malls than shopping on the street. Therefore we decided to open our first shops in Brazil in malls" (The Business of Fashion 2012).

Even Hermes, which created a lot of headlines for opening India's first free-standing luxury boutique in Mumbai's Horniman Circle, has opened its first store in Brazil in the Cidade Jardim Mall. Cidade Jardim is a good example for a successful mall that has managed to create an exclusive environment, combining convenience, security and easy parking. Many of Brazil's more upscale malls offer a wide range of services that go well beyond shopping. Brazilians go to shopping centers at least two or three times a week, more often than consumers in North America, where people go once a month or once every 2 weeks. And for many Brazilians, leisure is the most important reason to visit a mall. This is why in many shopping centers' movie theatres, and not big-name retail stores, are often the anchor tenant. Consumers in Brazil appreciate malls with good restaurants, gyms, movie theatres, beautiful landscaping and international brands.

Developers all over the country are currently reproducing shopping and lifestyle centers with these characteristics. By the end of 2012, the number of shopping malls in Brazil was 40 % higher than in 2005. Iguatemi Empresa de Shopping Centers, the third-largest mall operator in Brazil, aims to expand by opening an additional eight malls by 2015. During the last couple of years, large companies like Iguatemi have struggled to catch up with the rapidly rising demand. So they think their investments are justified, even if there is less growth in the near future. Iguatemi is a case in point for the latest regional trend in Brazil's retail landscape. Retailers are increasingly investing outside of the large metros, like Sao Paulo and Rio.

Iguatemi is building malls in Ribeirao Preto, Sorocaba, and Sao Jose do Rio Preto. It is also expanding two shopping centers in Porto Alegre and two more in Campinas. The company's investment plan envisions $700 million for new malls by 2015. According to industry estimates, another 40–45 million people will join the middle class over the next 20 years. That corresponds to the population of Spain. The Brazilian Association of Shopping Centers (Abrasce) reported 36 new malls starting operation in 2012, up from 22 the year before.

Foreign retailers have definitely taken notice of this promising development. Brazil's retail and consumer products (RCP) sector registered an increase in foreign direct investment of almost 92 % in 2011, according to Ernst & Young's first Brazilian Attractiveness Survey. FDI projects represented 9 % of the total for the year. Just like their domestic competitors, international RCP brand companies such as Nestle, Danone and Kraft Foods are starting to penetrate the local market further and expand their footprint across the country. The unfolding growth story in the Northern part of Brazil is starting to tempt companies to diversify their investments.

7.16 Challenges for International Entrants

In May 2012, The Economist published an analysis on "The B in BRICS." The news piece was an assessment of Brazil's strengths and weaknesses. And although the headline was titled "The Brazil backlash," it concluded that the country's "strengths are real." Still, the analysis suggested the government should worry about its weaknesses. For a country that rose to become an international investors' darling, this is no easy task. Brazil is basking in some glory, after high growth, a massive lift in its terms of trade (thanks to China's immense appetite for commodities) and a rule of law that stabilized its democracy as well as its economy.

As strange as it may sound, the most recent boom has revealed some weaknesses that need to be addressed if Brazil wants to secure further growth at a pace similar to the one experienced during the last decade. Its social programs have created an expensive welfare state that tends to be dependent on commodity exports. The exchange rate of its currency is rather high—a fact the administration has tried very hard to change. And some of the factors that helped to drive high growth both in the run up to and the aftermath of the global financial crisis may now be nullified. Among them is a rising credit culture that has some long-term risks. Many households are already struggling with the debt they have piled up. A survey by The Boston Consulting Group in May 2012 revealed that one out of four of those interviewed in Sao Paulo use half their monthly income for paying credit card debts, post-dated checks and loans. This problem is compounded by the fact that, according to the Brazilian Association for Consumer Protection (Protest), the refinancing of credit card debt can reach interest rates as high as 237 % per year.

In the eyes of foreign investors and brand marketers, there are some structural issues that need to be addressed as well. Brazil has become a relatively expensive place to do business. Extended social programs, subsidies and inefficiencies have contributed to a comparably high tax burden. It has risen from 22 % in 1988 to around 36 % today. The country has now the heaviest tax burden among emerging markets. It is even higher than in the U.S. and in Japan. This "Brazil Cost" is not only a result of transfers to the poor. It is to a great extent the result of wasteful spending and generous pensions. Minimum wages have risen so fast in the course of social programs that they are now three times as high as in India or Vietnam. Massive regulation is another issue. The Economist, in its analysis, quoted a rule "that 65 % of equipment for the deep water oil industry must be produced at home," which guarantees "that developing the new fields will be slower and costlier than it needs to be" (The Economist 2012).

Brazil's government seems to be aware of the major structural issues going forward. In its outline for the "Plano Brasil Maior 2011/2014," which aims to increase the country's innovative strength and competitiveness, the current challenges are expressed frankly: To strengthen the technological upgrading of the manufacturing industry, deal with the effects of the currency appreciation, accelerate investment in physical infrastructure and improve basic education. In order to achieve its strategic objectives—mainly an increase in the country's share in energy, technology, and goods and services markets—the government wants to expand the current value added in industrial manufacturing. Therefore it is striving to increase the participation of knowledge intensive sectors in GDP and to strengthen micro, small- and medium-sized companies and enhance corporate spending on R&D. The targets set for this program are very precise. Fixed investment as a percentage of GDP should rise from 18.4 % in 2010, to 22.4 % by 2014. During the same period, R&D spending by domestic companies as a percentage of GDP should rise from 0.59 to 0.90. One of the main goals is to increase the country's share in international trade from 1.36 to 1.6 %.

Infrastructure is among Brazil's greatest headaches. Roads, rail lines and power grids need capacity and efficiency improvements to allow the country sustainable growth. Red tape and delays are hampering the necessary progress as well. The ministry which oversees Brazil's new $66 billion infrastructure plan was at the epicenter of a spectacular corruption scandal in 2011. The transport minister and most of his staff resigned or were fired in the aftermath. Now the government has shifted to a new scheme, where private businesses are in charge of most of the planning and building of about 4,500 miles of highways and more than 6,000 miles of railroads. According to PricewaterhouseCoopers, private companies can build construction projects in Brazil twice as fast as the public sector. But if you factor in mandatory public hearings and other steps in the tendering process, it takes more or less the same time from start to finish, as experts confirm. The art of overcoming obstacles—such as rules and red tape—has a name in Brazilian political culture. It is called "jeitos" and is mainly a response to the country's notorious bureaucracy, where getting a driver's license, a passport or a marriage certificate can exhaust even the most patient citizen. Those who have enough income can hire "despachantes," professional facilitators who are masters in the jeitos genre and can get things easily done.

The supply of energy is another challenge in the country. During peak periods of heavy electricity use, the domestic power system can struggle with shortages. To be fair, electricity has a wider reach than most other public services in Brazil. But in the poorer regions of the country's Northeast, coverage is limited. There are frequent shortages, and lights frequently go out. These blackouts are called apagão, and with the rapidly rising power demand of the country's middle class apagãos are increasingly occurring in larger cities as well. One example is AES Eletropaulo, which serves 6.1 million customers in Sao Paulo and its metropolitan region. Procon, the Sao Paulo state consumer protection agency, lists AES Eletropaulo every year as among those receiving most of the consumer complaints. Procon recently won a judicial case that it brought against Eletropaulo after a nationwide blackout in 2009. The judge's verdict established that for any blackout exceeding 4 h, the company would be fined $300,000 per hour.

Brazil faces shortages in qualified labor as well. A survey by the human resources company Manpower recently ranked Brazil third among countries in which it is difficult to find qualified professionals to fill available positions. Moreover: Executives at foreign luxury brand makers in the country are reporting what they perceive to be a language problem. For many skilled workers there still seems to be a limitation in this regard. In its 2012 Brazil attractiveness survey, Ernst & Young described the lack of qualified personnel as "a key weakness of the Brazilian economy." And according to research from the National Industry Confederation (CNI), 69 % of more than 1,600 companies interviewed are facing difficulties due to the lack of skilled labor. The problem seems to be particularly acute in companies seeking to recruit top technical and management talent. In spite of its successful social programs, Brazil still suffers from a significant disparity between the rich and the poor. And there are vast regional differences in terms of health, infant mortality and nutrition between the richer South and Southeast on the one hand and the less prosperous North and Northeastern regions.

7.17 Brazilian Cultural Values: Blessed by God and Beautiful by Nature

Jorge Duilio Ben Zabella Lima de Menezes (Jorge Ben Jor) was born in March 1942 in Madureira, a working class part of Rio de Janeiro. He sang in the local church choir, participated in carnival parades and wanted to become a great soccer player. For a short time, he managed to join Flamengo, Rio's most popular team. At the age of 18, he got his first guitar and began teaching himself to play. In the 1960s he started performing in "Bottles Alley," a dead-end-street with night clubs that is famous as the cradle of the "Bossa Nova." Jorge adopted the stage name Jorge Ben, but later changed it to Ben Jor because some of his song writing royalties were mistakenly transferred to the account of George Benson. In 1963, Jorge Ben was noticed by a producer for Philips Records and got a contract. In his music, he combined elements of Samba with blues, rock and funk. In the 1960s he appeared on all major Brazilian music TV programs. With his music, he loved to experiment and defy categories. He is known as the first artist to play Samba with an electric guitar. During the years of dictatorship, Jorge Ben was more careful than many of his contemporaries and he mostly avoided trouble with the generals. Still, the government censors suspected that his hit song “Pais Tropical” (Tropical Country) contained a hidden message.

The song gave Brazil one of its most famous mottos: Blessed by God and beautiful by nature. In Pais Tropical, Jorge Ben even makes a reference to a German brand: “I’ve got my Volkswagen Bug and a guitar, I’m a Flamengo fan.” Jorge has written more than 700 songs, and his concerts are remembered among older Brazilians for their great excitement. They are described as tribal celebrations “in which the entire audience danced almost to the point of trance.” In 1994, he attracted more than three million people to a free concert on Copacabana Beach.

Being beautiful is probably one of the most celebrated Brazilian stereotypes. Brazil is naturally beautiful with its people, beaches, artful soccer, fashion, and warm and welcoming geography. There is plenty of sunlight, endless water and the Amazon is releasing massive amounts of oxygen to the world. The recent survey “What about Brazilian brands?” cherishes the country for its “abundance of curves.” It celebrates the curves “of our women, mountains, beaches and rivers”—even the curves oozing out of bikinis and the curved poetry in the late Oscar Niemeyer’s architecture. Millions of people around the world have seen them on postcards from friends who visited the Copacabana promenade, and views of Corcovado and Guanabara Bays. Soon they will see them in endless TV portrays running up to the FIFA World Cup and the Summer Olympics 2016. One of the most well-known expressions of Brazil’s beauty is its fashion—from sandals to bikinis—and its beautiful models. Brazil is the only country on the planet with a nationwide pageant for the cutest female bottom, which is crowned in an online contest. Perhaps the most famous celebration of beauty and sensuality in Brazil is its world-famous Carnival, a 4-day extravaganza marked by costumed parades, dancers, musicians, formal balls and musical contests.

This nationwide party briefly allows Brazilians to forget their harsh realities of life. Historians and insiders say the Carnival plays to the many dualities in Brazilian life: wealth and poverty, African and European, female and male. With the help of colorful costumes anyone can slip into any role during the festivities. For a few glorious days, class hierarchies can be set aside and poverty can be forgotten. The massive disparities in everyday life are blended in one enormous blaze of color and music. The samba school competition at the Sambodromo during the Rio de Janeiro Carnival is the highlight of the week. A Brazilian Carnival dance, the Frevo, has even been immortalized by UNESCO as a world heritage treasure. The Carnival is a religious celebration, with origins in pagan festivals, that occurs before Ash Wednesday, marking the beginning of Lent, when bodily pleasure and the eating of meat is given up.

It is no surprise that the beauty industry is a very strong emerging force in Brazil. The market research firm Euromonitor reported that this sector generated $43 billion in sales in 2011, up 10 % from 2010. The country now holds 10 % of the global beauty products market, putting Brazil in third place worldwide, right behind the U.S. and Japan. Important for marketers: Sales are equally strong for men as they are for women.

When U.S. president Barack Obama visited Brazil in 2011, he delivered a speech in Rio's Theatro Municipal and praised "the warmth and generosity of the Brazilian spirit." Obama's assessment of the recent economic and social development of Brazil was this: "Over the last decade, the progress made by the Brazilian people has inspired the world. More than half of this nation is now considered middle class. Millions have been lifted from poverty. For the first time, hope is returning to places where fear had long prevailed. I saw this today when I visited Cidade de Deus—the City of God."

So what is the core of the Brazilian behavior? What are the main characteristics, values and traditions of this society? In a study on cultural differences in Latin America in July 2012, Jamie Gelbtuch analyzed the prevailing stereotypes and asked Brazilians how they think they are perceived by people from outside the country (Gelbtuch 2012). He saw a "complex culture" for which stereotypes abound. Most Brazilians think they are perceived by others as mixed, diverse, informal, European, and having North and South American influences. "Words like happy and humor came up repeatedly in the top five values." There is a prevailing idea among Brazilians, says Gelbtuch, "that people think Brazil is a huge party and a big mess, very focused on Carnival."

In an essay on "Brazilian Society and Culture," the staff writer and free-lancer for Connection Consulting, Andréa Novais, dissects "what exactly leads Brazilians to behave the way they do" (Novais 2012). The first observation Novais makes is that Brazilians make no distinction between private and public environments because they relate to each other based on kinship, neighborhood and friendship. This explains why people are not called by their last names. Novais goes on to describe a natural tension between order and clutter, citing a famous book by Manuel Antonio de Almeida. In this book, Almeida created a character that embodies the Brazilian ethos, Major Vidigal. Vidigal characterizes order, respect and obedience. At one point he receives the unexpected visit of some ladies while still being in his pajamas and flip-flops. He rushes inside, puts on his perfectly buttoned uniform coat and comes back out, still wearing the pajamas and flip-flops down from his waist. Antonio Candido, a prestigious Brazilian sociologist, calls Major Vidigal a trustworthy representation of the Brazilian culture: "We try to represent order, but a significant part of us will always be in favor for some mess."

According to Novais, the corporate environment in Brazil is still very traditional, with a sound majority of companies still operating under a hierarchical organization model, where everybody is subordinate to someone else. Many companies in the country, though, are simply family-run organizations. Novais describes Brazilian society as being very food-oriented. Celebrations are mostly about food, since this is seen as a sign of prosperity. This habit is extended to the corporate environment, where it is very common to have business meals. Brazilians are rather judgmental, according to Novais, when it comes to appearances because they "believe that the way you look reflects directly on your job position, your educational level, your age and even if you must be taken seriously or not." Novais stresses a particular need for small talk. Regardless of how serious a meeting is, one will be engaged in talking about the weather and some other informal topics. The consultant's explanation is simple: “Brazilians, in general, do not deal very well with excess of formality and also because they see this as a way to evaluate you.” Deals rather seem to be closed with people that are considered to be a friend. But in Brazil most of the time just sending an email, making a call or mailing a letter is not enough to agree on something or to reward someone. If you want a Brazilian to feel that something was said, you must do it face to face and with a hug in the end.

A characteristic feature that is highlighted in many analyses of Brazilian society is punctuality. Time is a very flexible concept in this country. If you are invited to a social function and you arrive on time, it might catch somebody’s eye. Being late at least 30 min is absolutely acceptable. At work, though, no more than 10 min would be tolerated. But even at business meetings, your local counterparts might arrive half an hour late and feel they are right on-time. The most popular formal excuses in urban areas involve the constant traffic jams. Many behaviors and traditions in Brazil can be explained with the wide blend of Portuguese, African and Amerindian cultural influences. In Brazil, various central authorities—the church, the generals, landowners—have attempted to enforce rules and norms, often without great success. For many Brazilians it is preferable to appear to obey, rather than to actually obey. The roots of this “Brazilian style” are partly in a colonial heritage of diverse ethnic groups with a distant authority and day-to-day forms of resistance against control and exploitation. Informality, charm and good nature are one way to describe Brazilians, spontaneity and the lack of ceremony and punctuality is another. Nonconformity is sticking out as one of the main national characteristics. It is a constant fight to escape illegitimate authority, exercised by red tape, military rule, colonizers or corrupt politicians. Finding pragmatic solutions without making big waves is a national art.

Brazilian culture is predominantly collectivist and very family oriented. Loyalty to the group and the extended family is very important. Confrontation is avoided. Group identity is emphasized. Obedience in children is valued and teachers are expected to be authoritarian. Quality of life and nurturing have a high priority. Brazil is a male dominated society where women are still underprivileged. Gender inequality is strong, even though women have a visible presence in the labor force and a rising participation in education. But there is still a disproportionate concentration of women among low-paying jobs.

In Brazil, people are from birth onwards integrated into strong, cohesive groups, especially the extended family of uncles, aunts, grandparents and cousins. The result is a social barter trade: Protection in exchange for loyalty. But with rising incomes, higher urbanization and increasing mobility there is a rising trend towards individuality. A generation “Me” is clearly on the rise, and brand marketers are very much aware of it. The beauty industry, electronics makers and luxury producers in general, are highlighting successful, independent and aspiring young professionals in their advertisements. Group orientation is also important in the working environment. In business you build trustworthy and long-lasting relationships. Before you really do business, you get to know each other. Meetings start with small talk and general conversations.

When international observers think about Brazil or search for meaningful ways to compare the country's achievements, they are often tempted to use analogies involving soccer. "Brazil has beaten the European countries at soccer for a long time, but beating them at economics is a new phenomenon," explained Douglas McWilliams, the chief executive officer at the London-based Center for Economics and Business Research, in 2011. Brazil had just moved up one place in the rankings of the world's largest economies, displacing the United Kingdom on the number six spot. Soccer is deeply ingrained into the Brazilian culture and has yielded the country some of its greatest international honors. Brazil's national team has won five World Cup Championships. The grace and speed and flair of their performances enchanted the soccer world. They have transformed "futebol" (Portuguese) into an art form and a tool for national cohesion. The sport has become more than a game in this South American country; it has become culture and life itself. Soccer came to Brazil in 1894, imported by two British visitors. The early teams were made up of members from the country's elites. Then the game filtered down to the lower classes, as the European influence over Brazil waned. The Brazilian Football Confederation was created in 1914.

Brazil won its first World Cup in 1958, then again in 1962, 1970, 1994 and 2002. Pelé is the most famous Brazilian player but there are many more. For Brazilian soccer talents and fans the sport is an escape. Many of them grew up very poor. Pelé spent his childhood in the slums of Três Corações, where he was born in October 1940. Pelé has turned into an ambassador and business man of the sport. With his fame and commitment, he may have attracted more investments to Brazil than most companies. When he went to the US in 1975 to play for the New York Cosmos (who were owned by Warner Communications) it was the transfer coup of the century. Soccer was dying a slow, painful and largely unnoticed death in the US "Soccer," said one writer at the time, "was just a game played by Commies and fairies in short pants." Pelé changed the fate of the US League single-handedly and in no time. The number of soccer players between New York and Los Angeles quadrupled within just 3 years.

The FIFA World Cup in 2014 was a clear indication how a whole nation can become literally infected by the soccer fever. Many corporations sent their employees home on the days when the Brazilian team played and it was virtually impossible to schedule meetings or discuss about work. The whole country vibrated. And after Brazil won against Croatia, Chile and Columbia everything could have been perfect if national hero Neymar Junior would not have been injured by a Columbian player just before Brazil reached the semifinals. What followed then will be always remembered as a national trauma. The German national team beats the previously unconquered Brazilian national team shamefully 7:1 and takes the football crown in the following finals against Argentina. The Brazilian championship dream was driven into the ground.

As mentioned earlier in this paragraph, Brazilian culture prioritizes the extended family. Many Brazilians, regardless of social roots and income, prefer not to live far away from their kin. Even most adult sons and daughters remain at home until they marry. Ideally, they live near their parents after they have married. It is not uncommon that members of an extended family reside in separate apartments of the same building. The larger family includes all kinds of uncles, aunts, cousins and in-laws. But this tightly woven net has come under stress during Brazil's rapid transition to a modern consumer society. The country still has a rather young population, and the younger age brackets are expected to grow for years to come. However, by the middle of this century, it will stabilize and start to shrink.

Rural migration into the ballooning coastal growth centers, the increasing entrance of women into the workforce as well as the spread of health information and services are all contributing to this dramatic shift. One of the direct outcomes is a tendency towards smaller families with rising per capita purchases and more spending on the children, especially for education. According to a paper published by the Center of Development and Regional Planning and the Pan American Health Organization (Rodriguez-Wong & de Carvalho 2004), growth rates for the population within the working age of 25–64 will slow from a healthy 2.26 % per year in the first half of the last decade to 1.6 % between 2010 and 2015, and further down to a meager 0.38 % from 2030 to 2035, before the rate slips into negative territory after 2045. In the age group of 65–74 year-olds, the annual growth rates will surge to 3.68 % until 2015 and to an even higher 3.86 % in the first half of the coming decade.

This will pose major challenges to the government's social programs and pension system, making structural reforms an urgent necessity, otherwise there will be enormous fiscal pressure that could threaten public investments in education, infrastructure and innovation, which are needed to sustain growth. In its paper "Becoming Old in an Older Brazil," the World Bank states the greying of the society will be "one of the most emblematic and fundamental issues to the development of Brazil, which could define whether the country will enter a cycle of sustained and inclusive development, or, on the other extreme, if it will fall in a fiscal trap with a lack of opportunities for youth." The World Bank sees only a limited demographic bonus for Brazil. After 2020, the labor force will no longer far exceed the dependent population. The consequences, if not handled with political care, could be grave: "The current model, developed after the Constitution of 1988 in a young demographic context, with much poverty, recently-created institutions and high inflation, favors public transfers for the elderly in relation to children. This model was very efficient in reducing the poverty and inequality, but it led to OECD-level costs, although Brazil's age structure is still relatively young. This resulted in lower investments in youth and much higher benefits for the elderly."

The good news for brand marketers is the following. If the necessary adjustments of the social model in Brazil are made, there will be much higher spending on education, higher salaries and more spending power for women and the younger generation. Smaller families will channel more purchasing power per capita into relevant markets because the participation rate of women in the labor force will significantly rise. With more women earning their own money and joining the consumption story, industries like fashion, cosmetics and beauty in general will flourish. There are plenty of indicators showing that women are becoming more financially independent. One is certainly the rising divorce rate, which surged 46 % in 2011 alone—in the most populous Catholic country on the planet. The younger generation is also becoming more independent and individualistic. Better education, high digital literacy and smaller families are helping to expand an aspiring and consumption oriented “Generation Me.” It will be less bound by the traditional “big family,” which emphasizes conformity and adaptation to social rules. Rising mobility, education and independence will translate into better informed consumers wishing to prove to their peers through distinct brand choices what they have accomplished.

In order to manage the rising dependency rates, the economy needs rapid productivity growth, leaving room for higher wages and providing the revenues that are needed to sustain the fiscal expenses induced by an older population without social disruptions. The increase of the elderly population from 11 % of the working-age population in 2005 to 49 % by 2050 will offer large opportunities in healthcare industries, general care products and services for the elderly. The drivers of this massive socioeconomic transition were created during the last 50 years. Mortality in Brazil began declining in 1940. Infant mortality decreased from 135 to just 20 per thousand live births between 1950 and 2010. Life expectancy increased from about 50 to 73 years over the same period, according to the World Bank.

7.18 Impact Factors on Brand Building in Brazil

We have already described in this chapter that Brazilian culture is all about dance, rhythm, diversity, social mobility and optimism. This is no wonder in a society where poverty has dropped from 35 to 22 % during the last 7 years, and where salaries grew by 40 %, while unemployment declined from 12 to 8 % during the same period. Brazilians also tend to rely on continued government support via various kinds of social programs. In such an environment, it takes a certain set of key principles to get in touch with consumers, possess their attention, win their trust and build brand leadership.

An astonishing number of companies is targeting Brazil in extremes, either by focusing exclusively on the luxury market, or offering affordable mixes for lower income groups. The picture in Brazil, as we have described earlier in this chapter, has dramatically changed in recent years. The most attractive and rapidly growing target is now the class C. It has reached one and a half times the size of the UK’s population, and is larger than Germany. Most of these consumers, until recently, were low-income earners. But now they have moved up the ladder and enjoy their access to a complete new world of brand alternatives. They are excited about their new choices and they are hungry to catch up. Their upward mobility is hard to overestimate. In 2011 alone, 40 % of the Brazilian population bought new cellphones. In order to join the party you need to embrace the C class.

Inspiration and optimism are important keys to Brazil. Brazilians seem to respond positively to brands that create optimistic emotional bonds. Some brands had real success because they connected with Brazilian consumers by embracing their positive attitude. Omo's "dirt is good" campaign, which was born in Brazil and then exported to the rest of the world, is one example. Natura and Havaianas are further examples. Natura also proved to be innovative by employing ordinary women rather than supermodels for their brand communication. If the brand idea is positive and inspiring, it will have its chances.

Social media can significantly support efficient brand building. These platforms have become the second most important channel of communication after television. Brazilian consumers are obsessed with "talking" to their friends on social media, making them the fifth largest social networking population on the planet. Entertainment is very important. There is an important online video culture in the country. Twitter and Facebook are highly appreciated, but Brazilians are also turning to modern channels to improve their professional lifes. This has made LinkedIn very popular. Not to forget Instagram and Pinterest, which both have become especially popular with Brazilian women, adding visual opportunities to communicate with potential and existing customers. "People don't want to know you are at the beach, they want to SEE you at the beach," explains Brazilian marketer Rafael Cunha.

But international brands also need to be aware of strong local competition. It is important to properly understand competition and choose a good local partner. The local competition, according to observers and early entrants, is increasingly tough. Brazilian consumers cherish famous products, but in the end, quality, price and an exciting story will do it. Also: Keep the country's immense diversity in mind and recognize the distinctive cultures. Brazil is geographically large and demographically diverse. If you want to make an impact on consumers, you do not only need to be present, you need to be present with the right product and in the right segments and regions. Last but not least, do not be afraid of the slums. They are a consequence of income inequality, overwhelming migration and a general housing deficit. But the fact that many of the favelas lack basic services such as electricity and water treatment, does not mean that its residents stay away from consumption. The advent of loans without income proof, the rising minimum wage and social programs like those described in this chapter have created a consumption story even in these neglected places. It has motivated local companies and even banks to move into these emerging fringe-markets. Interestingly, many residents in the shantytowns do not want to be identified as the ones who can only afford the cheapest products. They want to go for some of the same products the middle class is buying. Stories of hairdressers, bar owners and bus drivers with little income, who bought 55 inch plasma TVs for their tiny living rooms, are not rare.

In June 2010, the world's largest food company Nestle started an experiment, sailing a supermarket barge down two Amazon River tributaries. The goal was to reach emerging-market customers who are cut off from the supply of branded goods. The journey led to 18 small cities with 800,000 potential consumers along the Para and Xingu rivers. The riverboat supermarket carried 300 different goods, including chocolate, yogurt, ice cream and juices. The undertaking is proof of the fact that even the impoverished North and Northeast of Brazil have become interesting consumer markets that are worth testing and targeting for global brands. The experiment also shows that even with 80 % of Brazilians living in urban areas, the country is rather a universe than one homogenous market with uniform consumption habits. The country's super rich fly into Sao Paulo with their helicopters in order to go shopping, while consumers at the bottom of the income pyramid with the least buying power rely on supply boats to purchase modern goods.

Consumerism in Brazil is very much influenced by rising incomes, improved choices, tough competition, the emergence of the 'digital consumer' and the urge of consumers to get hold of the best and latest brands. In a recent presentation on "Consumer Behavior in Brazil," WMcCann illustrated the rapid market evolution in the country. The presentation highlighted the fact that 50.4 % of smartphone owners had bought a new model during the six preceding months. Another 44 % of those interviewed stated they wanted to buy a new smartphone within the next 6 months. The extreme wish to get hold of the latest products increases the growth potential of some markets beyond the mere rise in incomes.

As already described here, Brazilians place a very high value on appearance, which makes vanity one of the strong drivers for consumption. Looking good is an integral part of the culture. Brazilians, especially the members of lower income segments, like to purchase products made within their country. But they have a weakness for brands with foreign origin if they can afford them. After all, one needs to be seen having success and making a career. In classes C, D and E, frugality is a critical factor. Brazilians who have not climbed on top of the income pyramid prefer saving money for larger purchases like refrigerators, TV sets, cars and apartments. So they watch out for good deals when it comes to smaller purchases. Women are enjoying increasing decision-making power, thanks to their rising participation rate in the labor force and thanks to a growing number of families with more than one source of income. More and more companies—domestic and international—are tailoring their products and services more to the needs and interests of Brazilian women.

Talking about appearance: According to figures from the Cotton Council International, one-third of Brazilian consumers shop for clothing at least once a month. The younger they are, the more they love shopping for clothes. There are marked differences in how Brazilian consumers make use of different retail formats and channels. Chain stores have overtaken independent stores as the top destination, which is a reflection of Brazil's evolving retail landscape. Chain stores, according to the Cotton Council, have become more popular among Brazilian consumers of all ages. Specialty stores are more popular among younger consumers. Chain stores are preferred for their selection and variety of items. Specialty stores are increasingly frequented by customers who focus more on quality. In terms of age, older consumers are more likely than younger ones to make price a top priority in their clothing purchases (94 vs. 87 %), while younger consumers tend to emphasize brand names (63 vs. 48 %).

Finding out what Brazilian consumers care about can make a huge difference. There are countless anecdotes and experiences among marketers that can be counted as proof. The Financial Times recently ran a story on some observations that consumer industries giant Procter & Gamble made in Brazil. The company, according to the report, became frustrated because it wasn't selling more diapers.

So the marketing people investigated and discovered a major cultural twist. While parents in America like to demand add-ons for diapers such as flaps, scents and biodegradable material, their Brazilian counterparts care most about the baby staying dry all night. The reason: Many families are still poor or have low income, and babies often sleep with their parents in the same bed. Once P&G launched a cheap, watertight diaper, their sales in Brazil surged for the product.

How are Brazilians shopping? According to findings by the Institute of Applied Economics Research (IPEA), less than one out of five consumers exclusively shops directly at the store. Out of the remaining 83 %, slightly more than half also shop from catalogues, while 38 % turn to the internet and 6 % use their cellphones.

7.19 Relevance of Country of Origin

According to the former Unilever chief marketing officer Simon Clift, who knows the country well, "Brazilians have an inferiority complex about their own brands; if something comes from elsewhere, then it is better." In the Brazil edition of our "BRIC Branding Survey" on the perception of foreign brands in Brazil we confirmed that the country-of-origin image (COO image) is of high importance in the South American country. 90 % of urban citizens surveyed confirmed the central importance of COO in the purchase decision process. Figure 7.2 shows the most preferred COOs in Brazil, based on the average of the performance in 15 relevant image dimensions (globeone 2013).

While Brazilian brands appear to be most highly regarded, this picture changes somewhat when breaking down the results across different income classes. Here, as displayed in Fig. 7.3, it becomes obvious that the preference for German, American and Japanese brands correlates with a rising income level and the ability to afford foreign brands (globeone 2013).

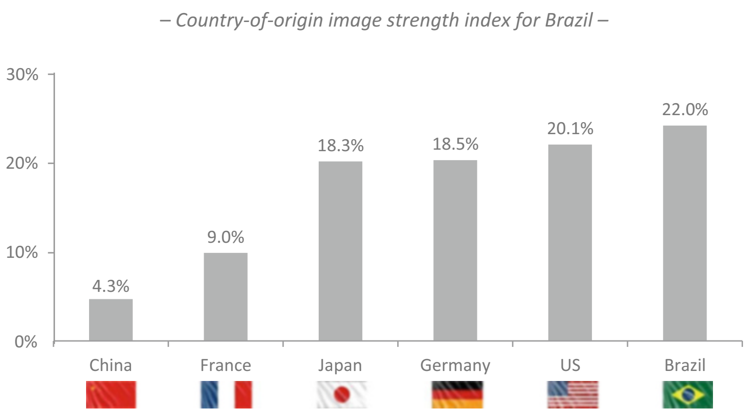


Fig. 7.2 Country-of-origin image strength index for Brazil. Local brands, U.S. brands and German brands lead the ranking. N = 1.023 urban consumers from Brazil. *Source:* globeone BRIC Branding Survey (2013)

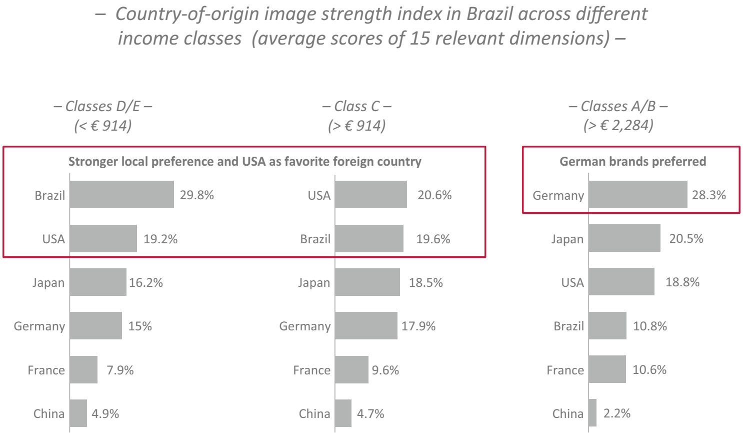


Fig. 7.3 Country-of-origin image strength index for Brazil across different income classes. Classes A/B prefer German brands while Class C, D and E prefer Brazilian and American brands. *Source:* globeone BRIC Branding Survey—Brazil Edition (2013)

7.20 Brazil's Media Landscape

As the largest media market in Latin America, Brazil is one of the growth drivers in the global advertising industry. According to UK's Digital TV Research, the worldwide television advertising market is expected to grow another $60 billion by 2017, with a major share of the added volume coming out of the BRIC countries. Brazil will contribute $4 billion between 2011 and 2017, China $7 billion, while India is forecast to record growth in excess of 70 % during this period. Brazil's media landscape is characterized by three main features. One is the strong position of TV as the leading entertainment and news source, because there is no newspaper with a national reach. The second is a very high degree of concentration of the media, not only with regard to their focus on the main cities, but also in terms of ownership—only six families control 80 % of the television network, seven out of ten magazines in the country are operated by a single group, and just two newspaper corporations in the state of Sao Paulo control a tenth of the national market.

There are more than 500 newspapers in Brazil, most of them with a very limited regional scope. For marketers, this means a good chance of fine tuning their campaigns. Since many newspapers share content among media chains, there is also a good opportunity to create a wider reach across the country. The dominant player in the TV segment is the Globo Group. TV Globo dates back to the 1960s and emerged as an important player during the years of military rule in the 1960s and 1970s, when it supported the regime's modernization project. Globo also owns the second largest newspaper in Brazil and the main cable company. Well into the 1990s, Globo—also known as Rede Globo (Globo Network)—was regarded as the world's most consistently watched private TV network. Still, by the mid-1990s, half of the $3.6 billion ad spending on Brazilian TV ended up on Globo. The network and its content are present in every aspect of Brazilian life, giving it the power to change views on politics and customs. Globo has a major influence on the way Brazilians speak about and view the rest of the world. The network owns—or is affiliated with—more than 380 TV channels in Brazil and the rest of the world. TV Globo reaches all socio-economic groups in Brazil and is the main source for news, soap operas, educational content and documentaries. The affluent and rich can view miniseries with international issues, while class C enjoys the "telenovelas" and game shows as their main form of entertainment.

Almost half of the population reads newspapers. In big cities the circulation of traditional papers is increasingly challenged by the distribution of free newspaper copies from transportation companies or private institutions. One out of three Brazilians reads magazines. Newspapers are mostly purchased by people aged 25–39. Younger readers tend to turn to magazines and to the rapidly spreading Internet. Television is the most influential medium, being present in more than 90 % of the households. While 83 % of the population watch broadcasting TV, only around 10 % watch paid TV. According to studies, Brazilians spend about 3.5 h per day in front of their TV sets. The impact of television on Brazilian life is regarded as extremely strong, not least because of the massively popular telenovelas—the soap operas—which were designed as a channel for more directed and better formatted advertising. Around 80 % of the population claims to listen to one of the more than 1,800 radio stations.

Newspaper circulation in Brazil has traditionally been low when compared to other emerging and developed countries, even though Brazil's press is considered very lively and energetic—and engaged the democratization process after military rule. There are several reasons for the rather limited role of newspapers. One is certainly the country's size and its geographic characteristics, which leads to high distribution costs. Another one is the fact that during colonial rule printing presses were prohibited. Universities, publishing houses and newspaper printing were not seen until 1808, when the royal family from Portugal needed to settle in Rio in order to escape the Napoleonic Wars in Europe. During the regime of the generals, there was strict censorship and limited circulation. Extreme poverty played its part, because it held down the literacy rate for a long time. And the high concentration of the population in only a few large cities was an additional hurdle to a wider geographical reach.

The largest readership resides in Brazil's Southeast. With only 11 % of the country's area, it hosts about 40 % of the population, about 60 % of the GDP and over 70 % of the industry. The four leading newspapers in the country, in terms of circulation, are Folha de Sao Paulo, O Globo, O Dia and O Estado de Sao Paulo. They are all located in the Southeast, Folha and Estado in Sao Paulo, Globo and Dia in Rio de Janeiro. Most Brazilian newspapers publish simultaneous Internet versions. An old law, enacted by the military rulers during the 1960s, prevented foreign ownership of local media companies. This changed in 2002, when the media market was opened up by a new legislation.

With the most recent growth, Brazil represents the largest Latin American market for both investors and advertisers. According to the Projeto Inter-Meios, ad spending in Brazil grew around 13 % during the first months of 2012. TV had a 65 % share in the nationwide ad market. Newspapers were in second place with 11 %, followed by magazines with 5.5 % and the Internet at 5.29 %. IAB reported the Internet's share twice as large in mid-2012, at an 11.9 % share. The difference is that IAB Brasil counts both search and display advertising, while Projeto Inter-Meios counts only the display ads. Contrary to many other countries, the newspaper market in Brazil is still growing. The Instituto Verificador de Circulacao reports that 73 % of Brazilians prefer to get their news from print media rather than online sources. Brazil has a couple of national news agencies, which are mainly run by the major newspapers. The leading agencies are Agencia Folha, Agencia Globo, Panorama Brasil and Agencia Estado. Estado calls itself the largest agency in the country.

Among the largest broadcast media, there are privately owned national television networks TV Globo, SBT, TV Record and TV Bandeirantes. There are hundreds of local and regional stations. Satellite TV has grown very fast since it was introduced in the 1990s. Brazil's ad market grew by 20 % in 2010, and again by 8.5 % in 2011. Free TV is the dominant destination for ad dollars, with a market share of 63 %.

In terms of advertising, Brazil is at the forefront of global growth. While Europe is stagnating, the world's emerging markets will account for one-third of the global ad budget of $500 billion by 2014, according to Zenith Optimedia. Based on the forecast, developing markets will account for 61 % of additional global advertising between 2012 and 2015. The BRIC countries will contribute nearly half of the spending growth. In 2013, Latin America overtook every other region in the world with a growth rate of more than 10 % for ad spending, which is nearly three times the rate of growth in the U.S. and twice the rate of the rest of the world. This makes Brazil an irresistible market for international brand managers and ad executives.

U.S. department store chain Macy's decided in 2011, to direct their latest major marketing and merchandising campaign towards Brazil. Their country promotion started in May 2012. It was a return to a kind of promotion that was popular with department stores decades ago. Campaigns of this kind are a way to salute particular countries that are popular and can bring an added flavor into local stores. Brazil was chosen not only because of its bold and bright colors, but also because it had just secured the 2014 FIFA World Cup and was in contention for the 2016 Summer Olympics, which it later won. Brazilians are also known to make up for a significant portion of Macy's tourist traffic.

Digital and mobile media is also key in Brazil. In 2012, over 79 million Brazilians were online, according to Internetworldstats.com. And they are making extensive use of their Internet connections. They spend more than twice as much time online as people in the UK, Germany or France. Brazilian Internet users are so active that social networks have not only become a meaningful form of expression in a very short time. They already represent the second most important channel of communication after television. In recent studies, more than 80 % of Brazilians said they had visited a social network within the last 6 months.

Until very recently, the number one social network in Brazil was Google's Orkut. One of the main reasons for this success was the fact that Google translated the social network's content into Portuguese in 2005. And Orkut is perceived by many Brazilians as being easier to use, since its interface is simpler. But Facebook managed to overtake Orkut in December 2011. By the end of 2012, Brazil was the second largest Facebook market in the world, with a massive 51 million users. Facebook fans and friends in Brazil are heavily concentrated in the major cities along the coast, with 34 % from Sao Paulo and another 12 % from Rio de Janeiro at the end of 2012. At the end of 2011, Google hosted Brazil's first official "Hangout." Shortly after that Brazil became the nation with the third highest number of Google + users. LinkedIn has also become very popular in Brazil. The Portuguese version opened in 2010. For Twitter, the Latin American country has become the second biggest market in the world, ahead of Japan and the UK. It may be due to the extreme influence of television in Brazil that YouTube has already managed to engage 79 % of the country's Internet users.

With its heavy social media penetration, Brazil has become a heaven for online brand merchandising. Most Brazilians use social media to research products before they buy them. In a 2011 study, the online market research firm "Oh! Panel" (Oh! Panel 2011) revealed that 61 % of Brazilians try to find information about products on social media pages before making their purchases. Four out of five Brazilians use social media to search for new products and more than 75 % look for special discounts. According to Oh! Panel, 79 % of Brazilian Internet users rely more on posts from friends and family than on product specialists, when it comes to buying products. And at 71 %, an astonishingly high number of Brazilians visit blogs, creating yet another important channel for marketers to communicate with them. According to our globeone survey on Brazil, the Internet has become the most used source for Brazilians to learn about foreign brands as well. TV and newspapers/ magazines have been surpassed as the second and third most important sources. Within the digital communication channels that offer the most insight for Brazilians on foreign brands, search engines are most relevant, followed by TV, newspapers and family/friends.

The rapid expansion of the Internet in Brazil is best illustrated by one of the remarkable marketing stunts the country has already seen in this sphere. Facebook sensation "Gina Indelicada" is one of them. In the summer of 2012, everybody in Brazil was talking about Gina, a fictional character representing the Brazilian toothpick brand Rela Gina. After Rela Gina's executives had decided to put their product inside a paper box instead of wrapping it into cellophane (in order to make it easier to take them to the table), they needed a face to feature the boxes. Gina's Facebook page reached 1.5 million likes within 12 days, significantly more than some of Brazil's most famous and public figures. Lula da Silva's official fan page at the time had 222,000 likes, while Gisele Bündchen's counted 857,000 fans.

With this kind of growth and potential, Brazil's online market is attracting rapidly rising ad spendings. According to IAB Brasil, the growth rate in the

12 months to September 2011 was a staggering 40 %. And the Internet penetration is forecast to grow much more. It is expected to rise from 37 % in late 2011, to 70 % by 2015, according to a prediction by Brazil's Communications Minister Paulo Bernardo. The country's Internet audience is not only growing, it is also broadening in socioeconomic terms. According to a study by Fecomercio-RJ and Ipsos, the number of users in classes C and D is growing fast. Within the 4 years prior to 2011, the percentage of class C members with Internet access rose from only 31 to 43. In class D, it rose from 8 to 17 % during that period. More than half of Brazilians over the age of 13 are now digital consumers. And in classes D and E, this ratio has reached a combined 12 %.

It is no wonder that Brazil has become an online marketing heaven and 91 % of Brazilians with Internet access are registered in some type of email marketing service. Almost seven out of ten people make purchases as a result of a message received through email-marketing, according to ExactTarget. Yet again, in this context, blogs play a very important role in Brazil: 91 % of executives prefer to read blogs rather than online versions of newspapers. Slightly more than one out of four Brazilians who are on Twitter interact with a brand on a social network. And almost 60 % read Twitter posts from their favorite companies. No surprise then, that Brazil accounts for more than two-thirds of all Latin American e-commerce and registers the highest per capita online spending at $42.

By 2015, Brazil is expected to become the world's fourth largest online market after Germany. One of the most significant recent trends has been the rapid switch to mobile as a way to go online. Brazil even seems to be leapfrogging past fixed broadband. Mobile devices are already the second most popular way for Brazilians to go online. The overall mobile penetration is past 100 %. In October 2012, Brazil reached a total of 258 million active mobile lines. One of the drivers of this trend is Brazil's lower income classes. The emerging income groups use cellphones as a tool to become included in the Internet boom. The reason: Cellphones are significantly cheaper than regular broadband. The usage of apps reveals yet again how important social networking sites have become in this country. Social platforms and games are clearly the most common installed apps on Brazilians' cellphones.

Some researchers and marketers have asked why Brazilians don't use the Internet even more often to buy their favorite products. Experts are referring to two kinds of barriers that have prevented an even faster growth. One is the culturally motivated unwillingness to wait for an item that they want to own. The other is the pronounced desire to touch and feel the coveted brands.

References

Bloomberg. (2012, October 08). *UnitedHealth to buy Brazil insurer Amil for $4.9 billion.*

BrandRepublic.com (2012, September 07). *The influencers: Simon Clift gives the inside track on marketing in Brazil.*

DB Research. (2012, June). *Brazil—Country of the Future!?*

Department of Foreign Affairs and Trade, Australia. (2001). *Doing business in Brazil.*

Financial Times. (2012a, August 18). *A moment of truth for Dilma.*

Financial Times. (2012b, April 24). *Brazil! Miracle or Mirage?*

Fundacao Getulio Vargas. (2012, March 06). *Back to the country of the future: Forecasts, European Crisis and the New Middle Class in Brazil*.

Gelbtuch, J. (2012, July 03). *Latin American cultural differences: A survey*.

globeone. (2013, May). *globeone BRIC branding survey—Brazil Edition*. Accessed February 25, 2015, from http://globe-one.com/the-image-of-german-brands-in-brazil-great-opportunity-across-social-classes-4073/

Institute of International Relations, University of Sao Paulo. (2011, October). *Brazil and the G20: Recent development strategy and strength among new emerging economies*.

International Institute for Environment and Development. (2010, August). *Brazil's early urban transition: What can it teach urbanizing countries?*.

Millward Brown. (2012, August). *BrandZ Top 50 Most Valuable Latin American Brands 2012*.

Novais, A. (2012, June 09). *Brazilian society and culture*.

Oh! Panel. (2011). Accessed October 15, 2012, from www.ohpanel.com

Reuters. (2012, July 24). *Foreign investment in Brazil up despite global gloom*.

Rodriguez-Wong, L., & de Carvalho, J. A. M. (2004, April 14). *Age structural transition in Brazil—Demographic bonuses and emerging challenges*.

The Brazil Business. (2014). Accessed November 30, 2014, from http://thebrazilbusiness.com/other/about-the-brazil-business

The Business of Fashion. (2012, July 03). *Forget the beach, mall culture rises in Brazil*.

The Economist. (2012, May 19). *The Brazil backlash*.

The Guardian. (2012a, April 11). *Everyone wants to talk to Brazil's President Rousseff, except Obama*.

The Guardian. (2012b, November 22). *Fashion Blog, How Brazil's homegrown fashion grew up*.

Williams, S. (2011, April). *Why is Brazil an emerging market economy?*.

Part III

BRIC Branding Framework

8 Strategies for Successful Brand Building and Marketing in the Key Emerging Markets

China and India have become top countries in terms of new jobs created by internationally expanding companies. The BRIC countries: Brazil, Russia, India and China, all rank among the top five in this category. The reason is simple; these nations have become leading consumer markets for many products, and they promise the largest long term growth potential going forward. As consumer product penetration in emerging markets increases and the upper middle class expands significantly, the willingness to pay a premium for quality brands will rise in tandem with the share of income that can be spent on discretionary products. The level of trust in brands, especially in Western brands that have strong heritages and promise emotional benefits, is astonishingly high.

Western companies need to focus their global expansion strategies on these consumer markets, and significant room for growth in the middle income segments of these emerging giants is only one reason to pursue this strategy. The other reason is the accelerated overseas expansion of a rising number of new local champions who are on a buying spree in Europe and the United States. These new challengers are going global through mergers and acquisitions and are catching up quickly. Take, for example, the Swedish car brand, Volvo, which is now owned by the Chinese conglomerate Geely; or the number one global PC producer, Lenovo, which overtook Hewlett-Packard to become the leading manufacturer in 2013. Another example is the Tata Group that is successfully reviving the Jaguar and Land Rover brands worldwide.

Consequently, Western companies need to learn how to compete with these new juggernauts on their home turf before they are attacked in their own primary markets sometime in the near future.

The important questions to ask now are: What are the best strategies to succeed in the BRICs and to position international brands in a way that appeals to very diverse cultures and value sets? How do we successfully compete with the local champions and international peers? Where are the growth drivers and what are the prevailing purchase motivations of the sizeable and emerging middle classes? What are the most effective marketing channels that resonate the best with those target groups?

N. Schaffmeister, *Brand Building and Marketing in Key Emerging Markets*,
Management for Professionals, DOI 10.1007/978-3-319-19482-0_8

A market-driven strategy is needed, combining the original global positioning of the brand with smart local adjustments and strategic brand portfolio expansions. According to the London Business School, a staggering 56 % of executives admit that understanding local business practices is the biggest hurdle in their international expansion plans. As a result, major investments and other opportunities for Western companies are being missed due to a lack of understanding of local business cultures.

The following sections of this strategy chapter will introduce 25 key considerations, strategies and conceptual frameworks that are of the utmost importance in achieving successful brand development in the large emerging markets in both B2C and B2B contexts. These tools are based on first-hand experience in consulting with some of the most successful global corporations over the past 15 years, as well as on academic research. These general strategies will be illustrated with a number of telling examples and cases from the BRIC countries to highlight their practical relevance.

8.1 Defining the Right Model for Global Expansion

There are four different types of strategies that corporations can follow in their global expansion activities, that also apply to the BRIC markets. Essentially, they all depend on the degree to which a corporation is willing to adjust to local market demands. Additionally, the extent to which a corporation should mix global with local elements depends on a careful assessment of the corporations' target markets. Ultimately, the decision is based on finding the best balance between efficiency and flexibility.

Global integration and standardization of the business model are intended to achieve economies of scale and maximize efficiency. Focusing more on adjustment and localization is a way to increase responsiveness to unique local circumstances in the BRICs and to maximize sales and market share in each of these markets. The way to balance your strategy between these two basic needs—efficiency and responsiveness—will depend on the specific pressures that come from both sides of the equation.

If the industry is subject to high pressure for global integration and there are very short innovation cycles, as in: consumer electronics, mobile phones and many luxury goods, a *global* strategy might be the most strategic choice. On the other hand, if your organization still depends on economies of scale and high efficiency, but also needs to take some pressure for local adaption into consideration, then a *transnational* strategy might be best. Alternatively, if your organization operates in an industry marked by weak forces for global integration and—at the same time—low pressure for local responsiveness, then *home replication* might turn out to be the preferred approach. Finally, if the need for scale and standardization is not overwhelming, but you need to bow to significant pressure for localization, then a *multidomestic* strategy would most likely be the best option.

A company that applies a *global* strategy seeks to maximize its global efficiency while centralizing decision-making. In this case, the headquarters controls operations, economies of scale are the top priority, the brands and products are highly standardized, and tailoring to the specific needs of local markets is limited. Managers who follow this strategic approach perceive the world affecting their industry and products as flat. Everything is formed and formatted as in Theodore Levitt's conception: There is a high degree of convergence; the same products and services can be sold in the same way in every target market. In this scenario, innovations can be developed at the group level and then applied in one country after another without any, or at least without significant, adaption or time lag. The clear advantages of the global strategy are economies of scale, lower costs and better centralized control of R&D and the decision-making process. The possible downsides are: reduced market share in local markets and less feedback from local operations. Marketing campaigns undertaken in this strategic scenario can fall into cross-cultural traps as the degree of cooperation needed between the country units of the group is high and calls for a lot of communication. If you sell cement, sports cars or smart phones, this might be your preferred strategy.

Case Study: Global Strategy—Apple

Apple is utilizing a global strategy in order to fuel its international expansion. The maker of iPhones and iPads considers using only the best available technology in its products, which are sold in more than 80 countries. Apple has strictly confined itself to the premium market and has steadfastly refused to make price the main selling point. The result is extraordinarily high profit margins. In 2012, the company controlled 20 % of the global smartphone market, but it generated 75 % of the profit in this segment. Over the last couple of years, the time lag of other markets behind the U.S. has become much smaller for the latest devices. Design, engineering, manufacturing and marketing are highly centralized and controlled by just one entity. Among the very few modifications they offer for their products is the power cord, because of varying voltage standards in different countries. Apple's products are manufactured by only two IT brand companies, Foxconn and Inventec, both located in China. As a result of its major international push, Apple earned 58 % of its revenue from outside of the Americas region by the summer of 2010. Two years earlier this ratio had been just 25 %.

The greatest increase in demand in the global market for smartphones now comes from emerging markets, where tech-hungry consumers in India, China, Brazil and Russia are paying astronomically high prices relative to their moderate incomes. In countries like India and China, there are few and low carrier subsidies, and the majority of the middle class still cannot afford to buy premium smartphones that cost north of $500. In April 2010, an Apple iPad imported through grey market channels into India was sold for around $2250. Tata's Nano fetched $2500 at the time, just $250 more than the iPad. Most recently, consumer electronics markets in emerging countries were

(continued)

flooded with cheaper homegrown devices that sold at a fraction of what is paid for an iPhone.

India's low-cost version of the iPad, for example, the Aakash ("sky" in Hindi), was developed by the Indian government as a learning tool. Due to a subsidy from the government it sells for about $35. As a result, India's government and its partner Datawind—together with a rising number of local competitors—are challenging Apple's position. Until recently the company simply refused to even consider cheap smartphones for its high-premium portfolio. The consequence is that Apple has started to sacrifice revenue growth and market share in order to defend its high margins. In order to sustain its long-term growth and get a better foothold in emerging markets, the company, according to analysts, needs to be willing to enter the segment for cheaper smartphones. Observers in the industry have been demanding this adaption of Apple's global strategy for years. The fact that Apple is willing to adjust its approach is proof that a pure global strategy is difficult to sustain in today's global market environment. In India, Apple first signaled that it was rethinking its strategy in early 2013, when it announced installment payment plans for its iPhones to make them more affordable and gain market share. After more than 4 years in India, the company had only achieved a market share of 5 %. The iPhone 5, at that time, was priced at $840, according to a full-page advertisement in the Times of India. This is equal to almost 2 months of wages for a well-educated entry-level engineer.

The *multidomestic* strategy is at the opposite end of the spectrum of strategies as it is highly decentralized. Business models and products are adapted significantly to local consumer needs and other market conditions, and the various country units in the corporate group act and decide independently. The multidomestic strategy forgoes economies of scale in favor of better acceptance and success in the various local markets. The corporate headquarters allows local management units to run country-specific operations and activities more or less independently. As a result, the company can compete much more effectively. The provision of autonomy allows for maximum local flexibility with some degree of localization. The world—in this scenario—is no longer flat; it is a mosaic of many disconnected markets. And each of them is being taken care of exclusively. This approach does not require a lot of knowledge transfer across borders. This strategy does not work if your products need to compete in a highly globalized environment where standardization is high and economies of scale are a critical element. Although, it works well if local differentiation is essential and local tastes, regulations, cultural values or strong competition require a highly responsive and meticulously tailored approach. The multidomestic strategy is well-suited for many food products, traditional fashion and some beauty products.

Case Study: Multidomestic Strategy—Yum! Brands

The American restaurant giant Yum! Brands—operator of Pizza Hut, Taco Bell and KFC—is a classic example of a company applying a multidomestic strategy. Yum! Brands tries to localize the offerings of the brands in its portfolio in every single market it enters. The company is currently concentrating its expansion efforts very much on the fast-growing middle classes of the emerging world. During the 5 years leading up to 2009, Yum! Brands added 4000 new units in countries like Brazil, Russia, Indonesia, Vietnam, India and China. One out of three restaurants opened by the company in 2012 was in China. In the People's Republic the company generates more than 40 % of its worldwide sales, and it earns approximately half of its operating profit. The restaurant conglomerate is now the most rapidly growing fast food empire in the whole emerging world and its speed of innovation is almost faster than its growth. Every year, the company introduces 85–100 new items on its Chinese menus in comparison to only one or two in the U.S. In Japan, KFC sells tempura crispy strips. In England, its menu is heavy on gravy and potatoes. In Thailand, it serves fresh rice with soy sauce or sweet chili. In China, the chicken dishes get spicier the farther inland the company's restaurants are located.

In China, Yum! Brands have already established a dominant market position and since 2012 it has started to target India seriously. It announced plans to invest $100 million during the past 5 years in order to operate 1000 restaurants in 2015. In the first quarter of 2012, the company made India its own reporting segment, demonstrating its intention to operate the business in this country as independently as possible. Marketing experts and industry observers see this as the key to the success the company experienced in China. Yum! Brands is by far the most successful multinational group in its business in the challenging Chinese market. It grew its sales from $1 billion in 2003 to $8 billion in 2012. The company's restaurants quadrupled from 1000 in 2004 to over 4000 today. The Kentucky-based restaurant conglomerate mostly succeeded because of its rebranding and extreme localization, described book author Helen Wang (Wang 2010, 2012).

Yum! Brands' first decision, upon entering China in the late 1980s, was that "it did not want to be seen as a foreign presence in China, but as part of the fabric of the local community," according to Wang. While some of the best ideas were taken from the U.S. fast-food model, Yum! Brands rebranded its offering as "delicious and safe, high quality and fast, nutritious and balanced, healthy living and rooted in China." Pizza Hut's Chinese name is proof of this strategy. It is translated as "Bi Sheng Ke," meaning "must succeed customer." In China, Pizza Hut offers a high-end dining experience for a moderate price. The interior of the restaurants is contemporary and stylish and visitors from the U.S. entering a Chinese Pizza Hut would find the

(continued)

menu almost unrecognizable. It contains chicken wings, fried squids, seafood pizza topped with crab sticks, salmon rolls and escargot in garlic oil. Clam Chowders and French-style crepes are also on the 30 page menus.

It should be no surprise that, for many young and aspiring Chinese, this offering translates into an attractive dining experience. KFC has also strictly localized its menu. Super-sized items, preferred by American customers, were eliminated. Sandwiches, shrimp and wraps were added. Early in the last decade, KFC started to open for breakfast, offering congee. The restaurant chain also tries to appeal to families by offering children's meals and furnishing play areas. According to Wang, many restaurants also employ hostesses who organize activities "such as teaching English songs and dances to entertain children while their parents dine." The result of this strategy—creating leisure restaurants as a middle ground between fast food and high-end eateries—is phenomenal. In terms of its distribution system, Yum! China has grown so large that its distribution system in the country is now second only to the Chinese Army's.

Yum! Brands has successfully reinvented itself in the People's Republic by transforming into an upscale, trendy and modern restaurant operator, leaving its U.S. heritage as a low-priced fast-food chain behind. In the meantime, Yum! Brands' emerging market business starts to serve as a source for innovations back home in the U.S. As an example, KFC began to offer breakfast in its home market and to "redefine fast food as casual dining." This development shows how more and more innovation is starting to travel in the opposite direction, moving increasingly from emerging to developed markets. One of the main challenges in the post-globalized world of the future will be: Integrating emerging markets strongly into international expansion strategies—be it through branding, R&D, sourcing or local manufacturing—will improve the chances of surviving at home in Europe or America. The BRICs' contribution, especially China's, to a growing number of innovative products is already visible. The global percentage of patents granted to Chinese inventors has doubled since 2005 and China is playing a leading role in the wind and solar industries. Consumer electronics, smartphone and telecom companies from the People's Republic are starting to influence international standards. After speed and prices, innovation is about to become another important differentiator in China, with growing implications for the rest of the world. The growth prospects for Yum!'s multidomestic strategy are immense. Even though Yum! Brands has doubled its sales in the 10 years following 2002, international markets are hardly saturated. Worldwide, for every one million people, there are only two Yum! Brands restaurants. In the U.S. this ratio stands at 58 per one million people. In India, its latest frontier, KFC is already growing much faster than the competition. Localization—again—is the key ingredient in its strategy when

(continued)

Taco Bell, one of the three brands under the Yum! umbrella, reinvigorated its India campaign after a slow start by raising the share of localized and vegetarian offerings to 60 %. This is the first time the Mexican chain has reached such a high degree of localization anywhere in the world.

The *transnational* strategy combines the strengths of both the multidomestic strategy and the global strategy. It comes closest to the "one world strategy", introduced in the chapter "The New Paradigm," that integrates large emerging markets like the BRICs into an international expansion strategy. Unfortunately, the execution is rather difficult as achieving the conflicting goals of flexibility and efficiency simultaneously is not an easy task. The best way to go is to combine group-level operating efficiencies with substantial localization in the product formatting, brand positioning and marketing areas. An appropriate guideline would be: "Standardize where possible and adapt when the market requires it." This strategy is a good opportunity for car manufacturers who sell global brand appeal and famous designs and want to capitalize on country-of-origin effects, but who still need to adapt to local requirements such as: different color preferences, added rear-seat legroom—as in China—or heavy chauffeur-only use—as in India. If managed correctly, the transnational strategy will offer products and brands to consumers who feel that the brand has some global flavor but at the same time is specifically tailored to their needs.

One example of this strategy would be Nokia phones; sold as a global brand, but adapted with an anti-dust keypad and a high-capacity battery for rural India. Other examples include: Danone, which offers a reduced lactose yogurt for lactose-intolerant Chinese customers, or Volkswagen, which offers its standard global cars with a compass pointing towards Mecca for drivers in the Middle East.

Case Study: Transnational Strategy—IKEA

Swedish furniture group IKEA is a good example of a company pursuing a transnational strategy. Its approximately 10,000 products and its unique shopping experience are immediately recognizable at all of the company's stores, no matter which of the 26 markets covered by IKEA you may visit. A large part of the international retailer's product portfolio is standardized and thus identical or very similar across all these countries. Its marketing is developed centrally, but with lots of local adjustments, and it does not just adapt its color schemes, add local products, and translate its catalogue. In China, for example, the company needs to build larger stores, because there is much more traffic. On a busy weekend day in Beijing, IKEA counts as many visitors as pass through any European store in a good week. In Asian IKEAs the company needs to stock more rice cookers and chopsticks and take in to consideration, for example, that Chinese consumers like firmer mattresses.

(continued)

The marketing mix also needs to be adjusted in terms of pricing because Chinese consumers—due to their income level—prefer lower-priced articles. IKEA—like many Western retailers in the People's Republic—is facing strong local competition, and the main weapon is pricing. IKEA had to make steep price cuts in order to become profitable in China. Some articles now cost half as much as they were early last decade when the Swedish company started to expand in China. On the other hand, you will also find special premium articles that are sold substantially more expensive in China than in other markets.

In countries like China and Russia, IKEA's positioning is different as well. For European consumers, IKEA is a well-designed but low-priced do-it-yourself mass-market furniture brand. Its stores are frequented by customers who have budget in mind and not premium branding. But this is completely different in emerging markets, where low prices are the norm and an aspiring young middle class is looking for Western lifestyle products. For consumers in these emerging markets, IKEA is a premium furniture brand with rather high prices, because average urban incomes are much lower than in Europe or North America. IKEA entered the Russian market in 2000 and the first store was opened in Moscow. From 2002, IKEA started to build more than a dozen super-regional shopping centers under the MEGA brand. These are huge and diverse retail locations operated by IKEA Shopping Centers Russia, each anchored by an IKEA store with usually around 200 retailers.

They are designed to offer "commercially attractive, family friendly, and safe retail environments." Strong international brands like Tommy Hilfiger, Levi's, Reebok, Starbucks, Burger King, Samsung, and Victoria's Secret have signed up. Together they create a very attractive shopping environment. The MEGA malls follow the same concept and have almost identical floor plans. In addition to an IKEA store, they all have a hypermarket, a do-it-yourself store, electronic goods and a department store. The latest MEGA malls have added an entertainment component. With this concept IKEA is creating a premium, high-value environment around its anchor stores. With a large number of well-known Western brands they increase the attraction and allow for better positioning based on the targeted shoppers in their respective locations. The reasoning behind this approach is explained in an IKEA concept paper for the MEGA mall in Samara, Russia: "At MEGA, destination thinking is at the heart of our strategy for a layout and retail mix that is tailor-made for our tenants to target shoppers. Excellent relationships with many retailers have brought famous international brands to the Samara region for the first time. Thanks to its location, well-designed layout and retail mix, MEGA Samara is one of the region's leading retail and entertainment centers."

(continued)

IKEA's experience with its expansion in the emerging world shows that the pressure to localize is rapidly growing and that purely global strategies can hardly be sustained in a world where more and more growth comes from emerging markets. The Swedish company more than doubled its revenue during the last decade to $36 billion and plans are to double sales again by 2020. This means that from 2015 on, IKEA needs to open up to 25 new stores every year and it seems the majority of these new stores will be built in emerging markets. In India, where IKEA expects the go-ahead within the next few years after the latest round of retail reforms, it plans for 25 stores. But Indians have cheap labor and are not used to do-it-yourself furniture. Picking an item from the shelf, taking it home and then setting it all up themselves is not what they think of as a great shopping experience. Indians go to local furniture shops that produce tailor-made pieces on demand and then deliver them to the customer's home. So IKEA might need to bend in this direction and expand its services if it wants to be successful. In India the company will also face a local regulation that requires them to source 30 % of its materials from within the country. With weak infrastructure and a system that relies on countless middlemen, this will be a major task.

All of this means that unique local circumstances in the countries where IKEA expects most of its future growth will drag the management ever closer to localization in every single market. In an interview with Reuters in March 2013, IKEA's China retail chief Gillian Drakeford acknowledged this intensifying pressure: "As we become more and more global and we expand more in China and we grow into India, we will need, probably, to have a wider range. Then each country will be able to secure relevance by taking the part they really need. But of course we will still secure IKEA's identity." As the company continues to drives its international expansion, the consequences will be far-reaching with emerging markets becoming the new basis for growth, IKEA will become less cohesive. An example of this, revealed by CEO Mikael Ohlsson, is how carefully IKEA studies local markets before it sets up a new store; "Most people don't really know and can hardly imagine that we visit thousands of homes around every store in the world every year. We sit down in the kitchen and talk to them" (Reuters 2013).

The *home replication* strategy is applied when there is not much need for flexibility or standardization. This strategy targets additional markets for domestic products that were designed for domestic customers in the first place. Products and brands are not, or are only slightly, adapted. A company adopting this strategy simply transfers its main competitive advantages with no, or hardly any, changes to a new market. In this scenario, the foreign operations of a given company do not provide much input—or none at all—for their group's operations. The basic business concept or product—or both—are simply exported to another country; German and Japanese cars in the 1980s and 1990s are an example, as are large hypermarket and big box retailers like Wal-Mart, Metro Cash & Carry and Carrefour. In many cases, the first steps of internationalization—especially for SMEs—are taken using a home replication strategy. While the strategy is convenient, as it requires no major strategic changes at headquarters level, it is dangerous in the long run. Companies using this strategy do not deeply engage in the local markets and do not learn how to compete on local terms. This can lead to a situation where a company is very successful in the beginning, but once the competition has found the right way to copy the business model or products, the company has no understanding of how to respond to the competitive pressure in an adequate way.

Case Study: Home Replication: Retail Champions Like Media Markt and Best Buy

Media Markt tried it. America's Best Buy, the country's leading electronics retail chain, tried it. Home Depot tried it as well. Even Germany's Obi home-improvement chain tried it. They all tried to transplant what worked for them at home in America or Europe. They applied a home replication strategy in China and did not localize their strategies and models enough. Their large-store retail concept did not work for them as well in the People's Republic because high realty prices prevented them, in many cases, from securing space at a reasonable cost. Moreover, in a country with famous cutthroat price competition, some of them did not focus enough on higher margins but instead sold too many product lines in one location. Shaun Rein, the founder and managing director of the strategic market intelligence firm, China Market Research Group pointed out that; "In China, revenue and profit per square feet of retail space is too low to justify giant stores selling low margin products," (Rein 2012). Rein explains three common themes that illustrate why global brands fail in China: Firstly, a lack of localization and the inability to account for local conditions, the second theme, according to Rein, is that "senior executives sitting in foreign headquarters often ignore what local country heads, who are more attuned to local conditions, have to say.", and third is that many Western brands tend to underestimate their local competition.

For most of these reasons Wal-Mart, the world's leading retailer, faced declining market share in China for many years. Alex Wong, of the London School of Economics, published "A Comparative Analysis of Wal-Mart's Strategy in the United States and China" in 2008 and came to a strikingly similar conclusions as Rein (Wong 2008). Wong argues that Wal-Mart's relentless drive to cut costs, build vertical integration, and emphasize customer service could not be replicated in China because of the local business culture and demographics. Wal-Mart proved to be a huge success story in the United States because it applied its hinterland strategy, achieving hegemony by locating in rural towns that most large competitors refused to enter. In America's rural towns, consumers were not significantly behind the large cities in terms of income, however the difference is much larger in China.

(continued)

Income disparities between urban and rural areas are massive in China. Moreover, suburbs like those in the West, says Wong, were "virtually nonexistent because not many Chinese could afford cars." Consequently, Wal-Mart needed to change its store format and welcome walk-in shoppers. This is the reason why Wal-Mart started to change course and open stores in large Chinese cities instead and as a result this adjustment in strategy put the American company on the same playing field with local Chinese competitors. The resulting threat to its profit margin was not the only challenge in China, finding ways to lower prices turned out to be very difficult as well. In the U.S., Wal-Mart could always lower prices by importing cheaper products from China, but in China the cheapest merchandise available is Chinese. On top of this, there were distribution problems as well. One key method in the U.S. to bring down costs is to build large distribution centers which could serve many different stores. However, in China, Wal-Mart's stores were located in cities that were very far apart and achieving economies of scale with larger distribution centers proved to be impossible. Only in the second half of the last decade did Wal-Mart start to build such distribution centers, first in Shenzhen and then in Tianjin. Shopping behavior was another factor as Chinese consumers are used to shopping daily in small community stores and regional chains and they are not accustomed to buying big bags of produce. In many cases they ripped open large packages and helped themselves to the portions they needed. Wal-Mart had to localize its product portfolio radically, and it accommodated Chinese consumers by offering in-house wet markets where customers can choose fish or meat, and butchers then cut it on demand. The company also had to set up open freezers, supply scoops and bags in order to let customers buy exactly the amount or volume they want.

Best Buy was outmaneuvered in China by local competitors like Gome and Suning, which opened smaller stores next to the existing Best Buy stores. Media Markt chose topnotch addresses in inner-city locations—like Media Markt's flagship store in Shanghai's Huaihai Lu—and had to battle high fixed costs, among them relatively high wages for qualified salespeople, who were supposed to make a difference by offering expert advice to customers. However, in a low-income country like China, with a young middle class, prices are still much more important than expert advice. Media Markt was caught between its costs and a market where the local competition always finds some way to lower their prices. "It was a mistake from the beginning to bring Media Markt to China," argues Rein. Not only does it always prove difficult for foreign companies to compete on price, but in Media Market's case, not even the "made in Germany" label helped, because German products are perceived as expensive in China. Media Markt had to announce its retreat from China in early 2013. "Brand global, position smart locally," would have been the right strategy for all these companies as most of them simply did not stress the second part of this equation appropriately.

In choosing one of the four strategies, there is still one crucial additional factor to consider: Timing is also of the essence and in the key emerging markets, early movers may be richly rewarded. According to the old adage; “The early bird gets the worm.” and in the corporate world, early entry into a new market, ahead of the competition, can translate into a large market share, high margins and much better knowledge of the unique local environment. For late followers it can become extremely costly to catch up once competition, cost structures and media pricing have increased. The recent history of the emerging world is full of pioneers who dared to enter promising markets early and were rewarded for their foresight and audacity. Germany’s Volkswagen is an example. The vehicle manufacturer built its first car in China in 1985, when Japanese competitors hesitated to enter this huge and promising but young and difficult market. Three decades later Volkswagen is the biggest-selling automotive group in the People’s Republic, and it is on the way to becoming the world’s leading car manufacturer by sales, with China as its largest national market and the key driver of its global expansion. Now, with the harsh market environment in Europe, Volkswagen’s competitors are doubling their efforts to catch up in the emerging world, especially in China, but they have to fight much tougher competition than Volkswagen faced when it made its first move in the 1980s.

The corporate world has taken notice of this important aspect of international expansion strategy. In its “Business Perspectives on Emerging Markets Survey,” the Global Intelligence Alliance listed regrets involving a delayed market entry as the second-most-important problem—after the need for better localization—that the surveyed companies would in hindsight like to have managed differently. A surprising 21 % of managers in the poll said they would have liked to enter their respective markets “more quickly.”

However, the assumption that first movers will automatically be richly rewarded is challenged by a series of academic studies. In 1993, researchers Gerard Tellis and Peter Golder published their findings on the topic in the Journal of Marketing Research (Tellis and Golder 1993). Using a historical analysis of 500 brands in 50 product categories they tried to avoid the potential limitations of earlier research, such as small database size and the exclusion of non-survivors. They found that almost half of the first movers in a market failed, and their mean market share was much lower than that found in other studies. Consequently, they found that it is more promising to be the second or third entrant with an outstanding product. Also, early market leaders were found to have much greater long-term success when they entered a market an average of 13 years after the first pioneers.

Entering after the pioneers can be efficient in terms of reducing the cost of production through experience and by learning from the pioneers in terms of avoiding mistakes or reverse-engineering their successful products and strategies. Usually, in every market—established or not, saturated or not—early entrants (as opposed to first movers or late entrants) can catch up in terms of technology and market experience. In some industries—such as hospitality and other services—one can limit the competition by getting hold of the best location available. This is how Wal-Mart succeeded when it opened discount stores in small towns outside of the urban centers. While the first mover has a chance to shape—or at least influence—initial consumer preferences, this also comes with the burden of educating the market and the related heavy investments of creating demand through massive advertising. The early entrant (as opposed to the first mover) can usually sell with more ease because the first mover or movers have already prepared the market and created initial demand in the new category. In the end, your decision on how to proceed must be based on the particular emerging market conditions. Thorough market research and reliable advice is needed to make an informed decision.

For example, if an emerging market offers advantages such as: low labor costs, high growth rates, high number of affluent consumers, pent-up demand or high effectiveness of advertising, a first mover's efforts will be acted upon. On the other hand, they can also be diminished when the target market is characterized by low income, poor infrastructure, heavy tariffs or regulatory restrictions, price controls or highly fragmented regional submarkets. A first mover can profit from a limited supply of talented or highly qualified personnel, weak competition or the low quality of existing goods, but if local competitors are strong or have formed an oligopoly, it can make sense to wait. Then again, if first movers can manage to create substantial process efficiencies and translate them into moderately priced products, early entry is definitely an advantage. Other important local conditions to study are the rule and enforcement of law, patent protection, educational levels and the judiciary system. If these factors tend to be weak, a first mover will face much more risk.

8.2 Understanding Your Local Brand Perception

When engaging in a brand development exercise in a large growth market, it is very important to develop a sound understanding, not only of the market and of local consumer needs and wants, but also to fully understand the performance and shortcomings of your own brand as well as the strengths and weaknesses of your global and local competitors in the local market. In many cases, this local perception can be fundamentally different from what management might expect.

Drawing on many brand research projects for all kinds of brands across the BRICs, there is one lesson that is striking: There is almost no brand that can claim to have completely consistent global positioning—especially in the large growth markets with their huge emerging middle classes.

As a brand is simply defined as "the consumer's idea of a product or service," the positioning of a brand always depends on whom you ask about it. As consumers in the large transitional markets usually have completely different levels of experience, value orientations and views of the world, it is one of the greatest illusions in marketing history that one can have something like a truly global brand that can be positioned 100 % consistently across the globe. The following Fig. 8.1 highlights this point in an illustrative example of the local perception of a medium priced U.S. car brand in China.

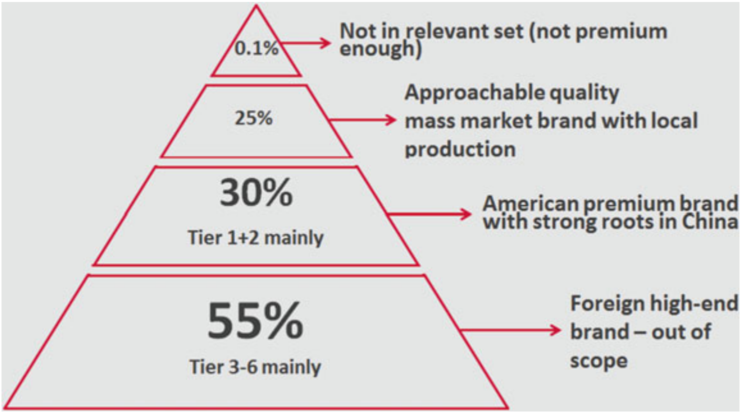


Fig. 8.1 Different levels of local brand perception: illustrative example of a popular U.S. car brand in China. *Source*: globeone qualitative research (2014)

The American car manufacturer Ford has been present in China since 2001, when it formed a JV with a Chinese partner, Changan Automotive. All together Ford sold 271,000 vehicles in the first quarter of 2014 (up 45 %). However, despite this business success, the perception of the Ford brand in China is likely to be highly differentiated depending on which consumer segment you are referring to. For example, while the lower middle class may perceive Ford as a rather expensive foreign-Chinese brand that is out of reach pricewise, the urban middle classes are likely to think of it as an aspirational prestige brand. Even further up the income pyramid, many Chinese citizens will think of Ford as an approachable, quality "mass brand" with an American background. Additionally, the affluent upper classes will most likely see Ford as not at all relevant, as they are focused on premium German brands. As the target groups are very diverse and dynamic in their development, you will rarely find a consolidated and consistent brand perception of a foreign brand across all of these segments. Therefore, concepts like *the* Chinese or *the* Indian consumer do not exist. It's extremely important to always make clear what group or segment you are referring to.

This makes brand management quite complex and requires that managers have a clear strategy regarding who is most important for the brand and that enables them to utilize and develop their brand differently depending on the target group in question.

These examples show that a sound understanding of your own brand status and its local perception are crucial. Therefore, the development of a market-driven positioning project is usually preceded by a thorough brand status monitoring, which provides a quantitative perspective on these questions. Therefore, basic brand monitoring methodology will be explained here and social media as a way to gather relevant insights will also be discussed.

There are four steps that need to be taken to evaluate a brand's performance in the BRICs against key competitors in order to derive recommendations for a market strategy as well as marketing and communications. The first is to define the scope of the necessary survey. The key guiding topics need to be developed and formulated and the precise target group must be defined. The second step is to design the survey, this phase includes defining possible local market drivers and developing a precise questionnaire. The third step is implementation; How is the project managed and by whom? How will the interview process be controlled and monitored? And how will the collected data be analyzed? This analysis will result in conclusions and recommendations. A detailed management report is needed, and the brand drivers must be identified and explained. Only if you can achieve high data quality and provide comparable and holistic results can you obtain meaningful insights and take the next step in your brand's growth strategy for the BRICs.

In phase one, the scope definition, you need to make a clear choice on the contents of the survey. The objectives and the target group need precise definition and the survey must target consumers or relevant industry experts. In business-to-business surveys it is critical that the majority of the interviewed experts are really in charge of, or at least involved in, the purchasing decision process. Only then will they have valid insights into the market and its inner workings. However, many market research agencies fail to interview a substantial number of relevant target people (esp. purchasing managers) as these individuals are usually more difficult to motivate to participate in market research exercises. As almost all global and local corporations engage in some kind of market research activity, there can be an overload of data collection activities, which leads to a situation in which rejection rates are extremely high for some target groups (especially business-to-business).

The survey also needs to be integrated in terms of content, methods and timing. The approach should be holistic, and allow for comparability of the brand's performance across the BRICs and other global markets. The definition of the survey scope needs to include a number of key topics and the brand status is one of them. It needs to take into account aided and unaided awareness of the brand, reputation, recognition of brand origin and communication performance. The brand image is another key concern and consists of functional and emotional aspects that a consumer associates with a particular brand or product in their memory. Finally, preferred information channels of the end consumer or B2B target group, both online and offline, need to be identified. Furthermore, how do you measure a brand's value from the consumer's point of view? Overall, there is a set of five dimensions that add up to a brand's value. The functional value epitomizes the purpose and usefulness of a brand and it depends on how much safety, continuity and trust a brand exudes. The prestige value depends on how much status a brand can bestow on its owner. The uniqueness value is derived by the extent to which a brand helps its owner differentiate himself from others and to what extent can the brand satisfy the owner's need for individuality. The self-expression value depends on the degree to which the brand allows its owner to express himself and to display his unique values and lifestyle. Finally, the hedonic value lies in the emotional and esthetic functionality of a brand. It will rise with the brand's ability to release and trigger poly-sensory experiences, feelings like joy, indulgence and delight (Wirtz and Göttgens 2004).

Once you have defined the scope of your brand monitoring, the survey method must be decided upon. The key question for this approach is; what is the best instrument to generate the correct answers? A questionnaire needs to be developed, the relevant local and global competitor brands and products need to be incorporated, and country-specific needs must be considered. The questionnaire needs to include proper translations and reflect any necessary adjustments of global image items to the local cultural context. In this process, sharp screening questions are essential. In addition, the results are more precise and viable when there is a high ratio of closed questions. For a quantitative survey, about 15–20 min of questioning is the recommended maximum; surveys that are longer run a substantial risk of siginificantly decreasing data quality. However, the questions are not the only crucial element, the survey design is equally important and must be chosen carefully. The following questions need to be carefully considered when designing your survey: Which method of questioning is applied? Computer-assisted telephone interviewing (CATI), do you try web-based interviewing (CAWI), or use a panel? And what about the size of the sample? It should be noted that anything below 80–100 respondents will hardly show substantial significance and stability. Moreover, when accounting for differences between cities or regions, easily over 1000 respondents per country will be needed and the number of people to be interviewed depends on the population and diversity. In India, Brazil and Russia there is an enormous number of ethnic groups and with growing urbanization in the BRICs, the regional focus must be carefully tailored. As a result the following issues need to be examined: Do we only need to survey the major metropolitan areas, or is there substantial growth potential in lower-tier cities? How important is the rural sector? And what about large industry clusters? Finally, timing, as always, is essential. Try to avoid the major festival times in the target country, as people are usually less willing to participate during these times. However, this is not easy, as in a multi-ethnic country like India, there are dozens of regional and national festivals throughout the year. At the end of this stage of preparation you will have produced a blueprint of the questionnaire and can run a pretest to identify potential systemic errors.

The question still remains; how do we conduct high quality field work in previously unknown markets? The implementation of the survey needs to be appropriate otherwise none of your previous steps will be effective or successful. The first important step in the research process is the careful selection of a trusted field work partner. To ensure an efficient process, it is advisable to work with an established player or recommended entity. Cheap bids by unknown entities are tempting, but they will probably result in hidden costs, such as a lack of quality. In many cases, cheap bids are usually cheap because the entity ultimately does not really question the relevant target group, but only people who appear similar, and this can easily lead you in the wrong direction, which could turn out to be very damaging. Quality control and supervision of the actual interviewing process is key. Cooperating with a research institute during the field work will prove valuable with regard to regular updates and research adjustments. The selection of such a research partner should be made with a potential long-term partnership across multiple countries in mind.

After all this is done, the data needs to be analyzed, and recommendations should follow. What are the insights and global implications for the brand based on the collected data? A comprehensive research report with proper data analysis and graphical interpretations will highlight the key findings, conclusions and suggestions. The report needs to be aligned with global reporting standards for better transparency and more effective execution. If all homework is done thoroughly, the drivers of the brand, the most promising gaps in the market, and local key media channels will be identified. The report will then contain a series of meaningful suggestions for your strategic business. Actionable strategic recommendations for the top management need to be framed and consequences for local and global marketing, communications and media planning should be set forth clearly and directly. Now the agenda for more growth in the key regions of the new market can be established.

Common Communication Challenges in the BRICs The following challenges are typical issues that a corporation may uncover in an initial brand monitoring survey. These findings that are summarized in Figs. 8.2 and 8.3 should help to identify the starting points for a tailor-made positioning strategy to improve performance in the ways that matter most to the business. These are the most common challenges for foreign brands in the BRICs that need to be dealt with, based on a basic brand performance analysis:

a. Initial awareness challenge
b. Image challenge
c. COO recognition challenge
d. Purchase activation & loyalty challenge

The first challenge: In some cases it may turn out that **brand awareness**—and with it the overall brand performance in all major dimensions—is extremely low. Foreign brand owners must be aware that all four BRIC nations are many times bigger than most EU countries. Russia, for example, is geographically larger than the entire European Union. Therefore it is not an easy job to build up brand awareness from scratch. An additional factor is the fierce competition for share of voice. In countries like China and India, almost all global champion brands are present and competing for a place in the memory of the target consumer. This competition is driving media prices constantly upwards. For example, a prominent billboard on Shanghai's famous Huaihai Road can easily cost $750.000 for 6 months—which can be more expensive than a comparable space in New York. The cost may be prohibitive, so many brand owners are trying to find alternatives to costly outdoor and TV commercials. However, in such a case the brand owner is running the risk of communicating below the critical "perception threshold"—the minimum level of communication necessary to reach the potential customers who are sometimes distracted by hundreds of advertising messages a day.

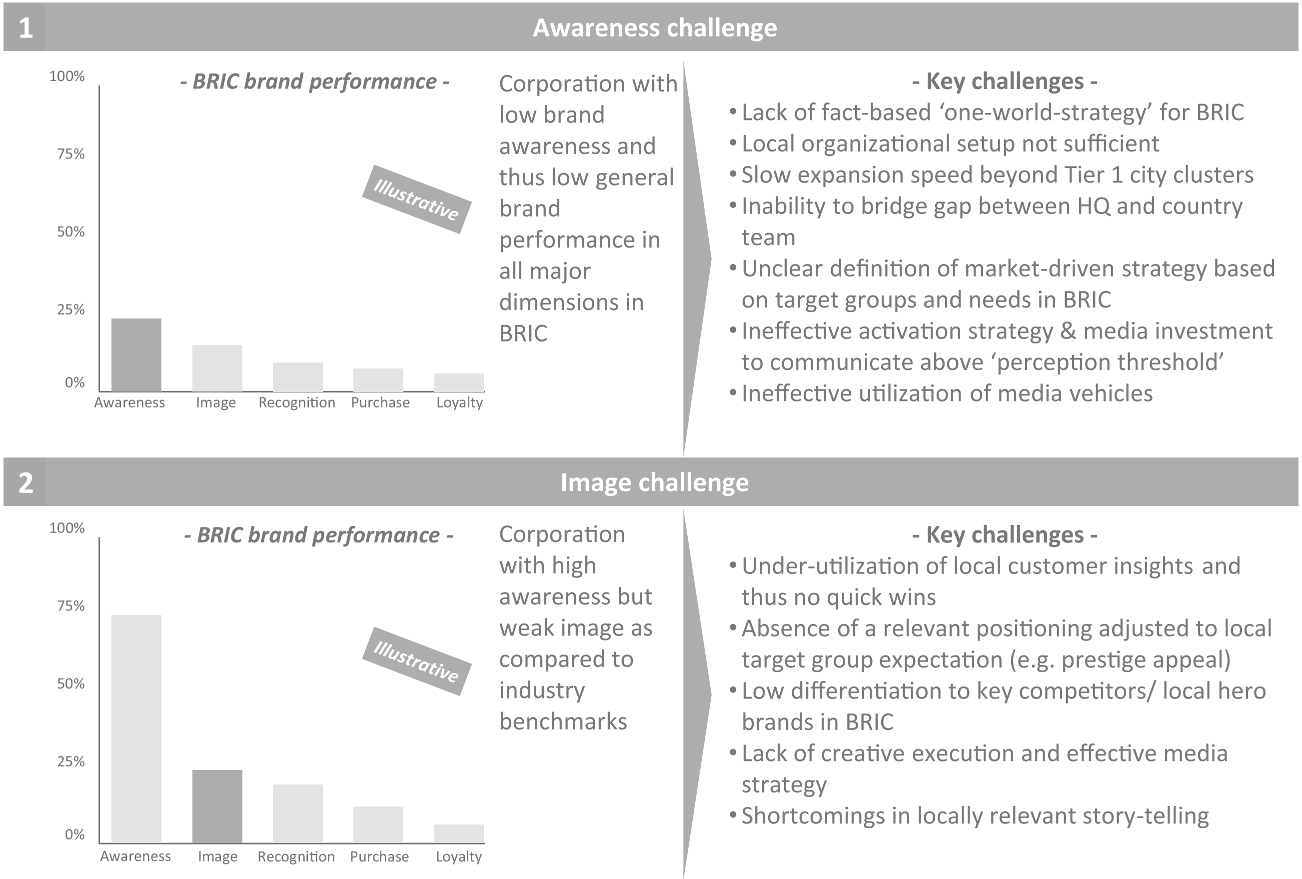


Fig. 8.2 Awareness and image challenge. *Source:* globeone research (2014)

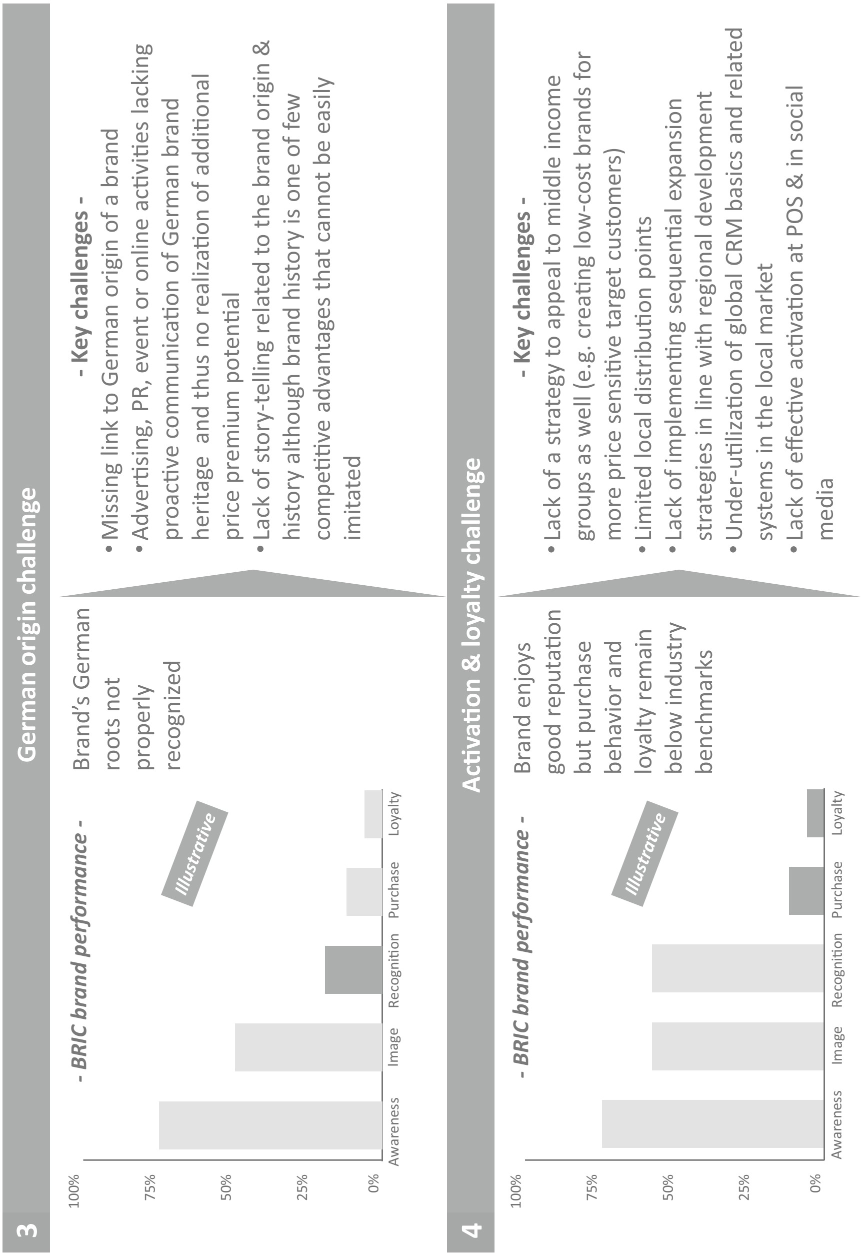


Fig. 8.3 Origin recognition and activation challenge. *Source*: globeone research (2014)

Overall, an awareness challenge usually results from a market entry strategy that was based on unsubstantiated facts and insufficient preparation. The company may have lost track of its key targets during the strategy definition, or it may have relied on wishful thinking while developing the entry strategy and related media budget. More often than not, a failure to create sufficient awareness is a result of an overall lack of commitment to the market, which is reflected in insufficient local organization, an overly strong focus on foreign management talent, and an overall lack of monetary resources and management attention at headquarters. In some cases, the speed of expansion and build-up of retail outlets might have simply been too slow because the company missed out on expanding beyond the tier-one city clusters fast enough. China, Brazil and India right now are offering great chances to expand into the rural areas, where tier-two and tier-three cities are taking off rapidly. In China, encouraged by the central government, Chinese state owned enterprises are paying higher wages in order to achieve the transition to an economy driven more by domestic demand than by exports. In India, the leading clusters and tier-one cities are starting to drive investment into the rural hinterland, because of high real estate prices, wages and rents.

Finally, another possible explanation of an awareness challenge is a complete lack of a market-driven strategy based on the target groups and needs in the BRICs. In this case, there might have been media investment, but the overall brand promise and the related creative execution of the brand messages have been so poor that most target customers did not even notice it.

The second challenge that might be revealed by a thorough brand monitoring program is an **image challenge**. In this case, your company may have achieved considerable awareness, but compared to industry benchmarks, the image is weak. In short, the consumers or B2B buyers in a BRIC market already know you—but they do not really like you, or see you as arrogant.

In this case, local customer insights have usually been underutilized. This can be very damaging, because a clear view of the brand drivers (the key decision factors for the brand) is essential in a highly competitive environment that is changing as quickly as that in the emerging growth markets. The result can be a lack of brand relevance and its promise to the local target groups. It simply does not deliver on the expectations in its product category or—even worse—the target groups do not understand at all what the brand is good for.

In many cases, an image challenge also indicates that differentiation from important key competitors has been neglected. If a foreign brand is positioned too much like local hero brands, it is likely to be seen as a “me too” and not relevant at all. The existing bonds with the local brand might be too strong. Finally, we have also seen many cases in which the product and the defined brand strategy were perfectly appropriate in creating an impact in the local market. However, the actual advertising message, storytelling and creative execution were simply not up to par. In some cases, awareness was created, but the campaign failed to leave a relevant and lasting impression.

From time to time, a third challenge can arise in connection with the **country of origin** (COO). In this case a company’s roots—for example, its origins in the

United States or Germany—might not be properly recognized. The possible explanations are somewhat more limited in this case. For example, there might be no clear link to the U.S. or German origin of the brand, or the lack of storytelling related to the brand's origin and history might be a reason. If so, this might represent a serious missed opportunity, because a brand's heritage is one of the very few competitive advantages that cannot be easily imitated. As Daimler CEO Dieter Zetsche put it, in response to a question about growing competition in China: "Besides the high technological entry barriers of the automotive industry, there are brand-related entry barriers in the premium segment that are almost more important [than technology]" (Handlesblatt 2013).

In many cases, the actual foreign brand heritage—and thus the realization of additional differentiation and price premium potential—might have not been expressed, due to a lack of proactive communication in terms of brand name selection, conventional advertising campaigns, PR events or digital activities.

The fourth major challenge frequently revealed through a thorough brand monitoring program is an **activation and loyalty challenge**. This arises when a brand enjoys a good reputation but the sales of the brand and related loyalty levels remain below industry standards.

If this happens, there are again a number of different explanations: One possible deficiency is too narrowly focusing on an inadequate group of target customers. In short, people are aware of the brand and would buy it if it was only made available. While some top premium brands might be well-advised to keep their focus on the top customer segments and grow with them, for less premium brands it might be advisable to integrate middle-income groups as well and to tone down selected products to appeal to these groups. In some cases this can even mean developing a separate low-cost brand to take advantage of the growth potential in the more price-sensitive middle-class consumer segments.

Another common challenge could simply be the limited number of local distribution points beyond one's own brand stores and international retail chains. To reach beyond the megacities, it is crucial to strike deals with local supermarkets, distributors or agents, thereby reaching out to more potential customers. More recently, selling through digital challenges and delivering the products through express mail has become a very viable option to bridge some gaps in distribution. Another common challenge in all of the BRICs is the underutilization of global CRM basics and related systems in the local market. For example, many automotive manufacturers initially implemented so-called small-market CRM solutions in the BRICs. Now that there has been dramatic growth and a rapid increase in the number of car dealerships in some of these markets, these solutions do not offer all the necessary functions to support the customers as well as the dealerships through the entire customer life cycle. Finally, good branding but poor sales performance might be explained by a lack of effective activation at points of sale. Labor cost in the BRICs is substantially lower than in most developed markets. Therefore, it is common to use in-store promoters, who aggressively draw attention to the products and give customers a push to try a new product.

8.3 Positioning as Global, Hybridized or Local Brand

Before we describe in detail our process of successfully adjusting a global or international brand to a local growth market in the next chapter, we will first introduce the three basic ways in which a brand or company can position itself in a new market in terms of its origin and how it competes in the local market. As this is among the most critical decisions to be made in a global market expansion, we will dedicate this section to providing a systematic view of the major factors that impact such a decision.

In general terms, brand positioning is commonly referred to as "the high art of marketing" and constitutes the active design of a brand's position in the minds of the consumers who constitute the target market (e.g., Esch 2002). Before any decision is made about the specific functional and emotional characteristics that a brand should reflect, there is the question of where does the brand come from conceptually? Is the brand a global brand that puts global consistency first? Or is it a local brand that closely resonates with the local consumers' ideas and feelings? Or does it offer a mix of global appeal and local benefits?

Theoretically, the decision should be quite easy. Choosing global positioning may be the most cost-effective way to proceed, because of economies of scale. It is also easier to manage and control from headquarters. In contrast, so-called hybrid positioning, which tries to retain the overall global brand essence while localizing specific features of the positioning and the marketing mix, can help to achieve better acceptance and deeper market penetration. In some cases, tailoring brands completely to the regional or local preferences can help to avoid pitfalls and may generate better sales and market share. Of course, there are significant tradeoffs between the different positioning options.

There are four major factors that have a critical influence on the extent to which a foreign brand needs to be adjusted to local markets: the *product category*, the *status relevance*, *consumer patriotism* in the target market, and the *income levels of the local target groups*.

When you consider local versus foreign positioning, it is important to find out how closely your **product category** relates to the local culture. Products like food, medicine, liquor associated with specific festivals, and traditional clothing are usually closely attached to local cultures. In these categories consumers will tend to favor local brands, or international brands with a strong local flavor. In other—more innovative—categories, like cars, electronics or sports equipment, consumers in emerging markets are more willing to decide against local products and opt for global brands. In addition, there is another issue related to the product category, this is the degree of competence which local consumers perceive that brands from their home country have already gained in this product category. For example, as food is a product category very closely related to local culture, it is traditionally a category where local positioning holds a natural advantage. However, in areas where local manufacturers lack technology or the trust of consumers, foreign brands still enjoy an edge. The milk powder market in China serves as the perfect example here. As a number of scandals related to tainted milk powders destroyed trust in local milk producers, milk powders from New Zealand and Germany are now in very high

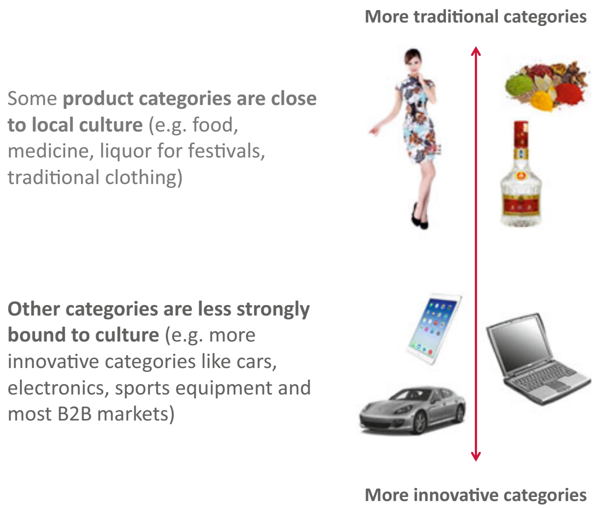


Fig. 8.4 Differences in product categories with regard to proximity to local culture. *Source*: globeone (2014)

demand, as consumers seek to protect their children from drinking harmful milk products. Figure 8.4 provides an illustration of how different products are more or less closely related to the cultural context.

The second key question is; how visible is the product and how relevant is it in reflecting and displaying the target **consumer's status**? In transitional economies, consumers generally use foreign brands as a way to display status. There are some strong drivers and motivators behind this behavior. These may be memories of shortcomings from the past, like India's socialist era or China's Maoist era, when private property was forbidden. Many consumers crave social prestige ("See what I can afford!") or want to finally be part of the "global village", or they may feel a need to display their cosmopolitan sophistication. Chinese consumers, it seems, are often torn between the two extremes of desiring status goods for the sake of *mianzi* ("prestige" or "face") on the one hand, and a rather nationalistic desire to embrace Chinese values that are local in origin, as described in a famous article by Zhou and Belk, 2004.

When consumers in emerging growth markets make their purchasing decisions, **consumer patriotism** also plays an important role. The preference for foreign versus local brands is partly shaped by the degree of consumer patriotism in a country or a specific market segment. Some segments in society are more patriotic than others. Usually it is the traditional elites, lower-income consumers and the elderly who are more patriotic. In some cases, this patriotism has its roots in historical conflicts. For example, the Chinese are sensitive to Japanese products due to Japan's war crimes committed during the Sino-Japanese war, as well as to the dispute over the Diaoyu/Senkaku islands, which both countries claim as part of their territory. As a result, whenever political tensions over these topics heat up, Japanese car and cosmetics companies usually see their sales take a dive as many consumers try to avoid Japanese brands temporarily. However, in India, China, Brazil and Russia, pragmatism prevails most of the time. Even among patriotic consumers there is usually no strict rejection of foreign brands unless specific issues or political tensions come into play, and that remains true across most categories.

The **income level** of the target group is a crucial determinant for a positioning strategy as well. There is a rule of thumb that applies to most emerging markets: The higher the degree of prosperity, the higher the preference for foreign brands across many categories. This is simply because there is more money in people's pockets, and because those who earn higher incomes tend to be more open to brand experimentation and more cosmopolitan in their orientation. The rapid growth of the urban middle classes in the BRICs is a key driver in the purchase of foreign brands. This correlation is so clear that government leaders—especially in China and India—have at times expressed dissatisfaction with the tendency. Attacks on foreign brands (see Sect. 8.24 "Getting Ready for the Perfect Storm") and subtle forms of protectionism are only two of the known consequences.

The ultimate needs and considerations of consumers in the BRICs are in many cases very different from those in the familiar Western home markets. Social status considerations have already been mentioned as one example. In addition, traditions, habits and cultural values come into play. While some observers like to cite luxury examples to argue in favor of the "global brand" and call for a standardized one-to-one approach, there are few niches outside the luxury industry where this actually works well. The following Fig. 8.5 summarizes the impact factors in this simple model, as well as the implications of using a positioning strategy that can be characterized as "global," "hybrid" or "local."

Factors for local/foreign positioning		Brand positioning (illustration)
Status level	High	Foreign
Product	Not bound to culture	
Patriotism	Low	
Income level	Affluent	
Status level	Medium	Hybridized
Product	Not close to local culture	
Patriotism	Medium	
Income level	Mass affluent / Middle class	
Status level	Medium / Low	Local
Product	Close to local culture	
Patriotism	Medium / High	
Income level	Middle class / Mass market	

Fig. 8.5 Configuration of impact factors on local/foreign positioning and the resulting positioning decision including illustrative examples. *Source*: globeone (2014)

As just one example, Coca-Cola is often referred to as the ultimate idea of a global brand. And yes, it is true that Coke sells almost the same sweet, brown drink in China, India and Brazil as in the rest of the world, but look carefully beyond this and you will find—other than the core product, corporate colors and design—few things that are standardized. For example, in China, you rarely find the English brand name on the red cans any more. It is mainly in Mandarin Chinese, because Coke wants to sell to the masses, and the masses speak Chinese (only about 15–20 % of the Chinese have rough command of English). Look at the positioning of the brand, the celebrities and pop stars Coke uses, the claims that are made in advertising and you rarely find global elements or references to Western lifestyles. The brand has been partly adjusted to local conditions and is interpreted in a local way to maximize market acceptance and sales. In technical terms, Coke is a *hybridized* brand in China or India—as global as possible, but local enough to be functional and relevant. Figure 8.6 gives an overview of the complexity of the adjustment of the main brand elements to the local conditions. As you can see there are many different factors or levels where a brand can be more or less adjusted or localized.

In some cases there are situations that we, at globeone, have termed the "localization paradox." What do we mean by this? We talk of a localization paradox when, during a brand adjustment exercise, a brand is adjusted to the expectations and needs of the local target groups and local market conditions. In some cases, the

	Foreign	Hybridized	Local
Brand name	Global / foreign name	Translated name	Local language name
Brand design	Global / foreign design	Mix of elements	Local design
Logo	Global / foreign logo	Translated logo	New local logo
Symbolism	Global / foreign symbols	Mix of symbols	Local symbols
Brand promise	Esp. prestige appeals	Mix of global and local	Locally adapted promise
Slogan	Global slogan in English	Translated global slogan	Fully adapted slogan
Country of origin	Clear foreign origin	Overall global appeal	Local origin emphasis
Brand ambassadors	Foreign celebrities	Mix of celebrities	Local celebrities
Product functions	Globally standardized	Selected local features	Adapted/new development
Packaging	Global packaging	Local features added	Fully adapted packaging
Price positioning	Foreign price premium	Limited price adjustment	Fully adjusted local price
Distribution channels	Own / top premium channels	Mix of channels	Completely localized approach
Communication channels	Similar channels as globally	Mix of channels	Localized media strategy

Fig. 8.6 Adjustment of brand elements according to a "global," "hybrid" or "local" positioning strategy. *Source*: globeone (2014)

result of this local adjustment process may be that the optimized brand should actually highlight even further its global heritage and its country of origin, should use foreign celebrities and emphasize its global technological edge even more than in the home market. So ultimately, this is a "local" adjustment that in the end makes the brand appear even more foreign and global. This can add more value and enable a price premium in the perception of the local target groups. Therefore we recommend carefully distinguishing between the two terms "local adjustment" (which can also mean making a brand appear more global) and "localization" (which is commonly referred to as a brand being positioned to be perceived as a local brand from the target country). Until now, most authors have not made this important distinction clear, thereby creating confusion among the readers of their surveys and articles.

For this reason, we at globeone have focused on the terms "local adjustment" and "market-driven positioning," which, as a result, can also lead to a more global/foreign or hybridized positioning in the growth markets of today. Unfortunately many global brands have not yet embraced this pragmatic approach and do not properly adjust their brands and offerings to the needs of those target groups in the BRICs that offer the strategic growth opportunities of the future.

In India, with its distinct taste for spices and strong flavors, many foreign consumer companies have created successful brand campaigns with a hybridized positioning, using the global promise and proprietary trademarks, names, symbols and logos of the brand, while adjusting to local cultural values, tastes, colors and ingredients. McDonald's has "Indianized" its menu by up to 70 %, adding more chicken, fish, lamb and Indian cottage cheese. The company has positioned itself as a welcoming and affordable family restaurant offering an exceptional eating experience that makes you smile and feel special. The U.S. origin does not really play a major role here.

Other companies have gone further, choosing to make strong local adjustments. Frito-Lay has adapted its flavors of potato chips to local tastes with products like "Magic Masala." Nestle has built a huge instant-noodle brand in India, with the top-selling flavor being "Indian Masala." Unilever established a leading ketchup and tomato sauce business under the name of Kissan, featuring tamarind flavors among others. Cadbury offers chocolate treats under the Dairy Milk brand, with a local sweet "Kalakand" filling. A 2013 TV commercial shows Dairy Milk being celebrated in an Indian typing department, with people wearing traditional clothes and dancing Bollywood style while singing and praising the chocolate.

In another interesting case of hybridized positioning, Kraft Foods won over customers in China and India with local adjustments to its famous cookie brand Oreo. The cream biscuit was launched in China in 1996 and the initial assumption was that Oreo's success in other countries would automatically make it a winning formula in China too but the cookie failed to resonate with Chinese consumers. Kraft did some fieldwork and researched the local market. Chinese consumers, it turned out, liked the contrast of sweet and bitter, but for them the Oreos were a bit too sweet. Also, they found them too expensive. As a result, Kraft remade the product in 2006 and launched a new Chinese Oreo, including a variety with four layers of crispy wafers, filled with vanilla and chocolate cream and coated in chocolate. Kraft went on to educate the Chinese about the habit of American consumers, who first separate the Oreo's biscuit wafers, then lick the cream inside, and finally dunk the cookie in milk before they eat it. The strategy of tailoring the product to the Chinese market while marketing the American style of pairing the Oreos with milk turned out to be much more successful. Oreos became the best-selling cookies in China.

The $19.1 billion acquisition of Cadbury in 2009 gave Kraft not only the access to India but also provided the opportunity to apply its lessons from the Chinese success story. Kraft knew it had to offer Oreos at very competitive prices and the product was launched in 2011 as Cadbury Oreos. The biscuits were sweetened to suit the Indian palate, and locally sourced ingredients were used. Oreo was then launched in smaller sizes with vanilla cream. The heritage of the bitter chocolate was upheld, and the cookie looked the same as its international counterpart in order to show Indian consumers they were getting the "real thing." The brand was marketed in India using a togetherness theme. The main medium for the campaign was TV, but social media channels were employed as well. Oreo's Facebook page in India became one of the fastest-growing in the world and the brand's market share grew from just over 1 to 30 % of the cream biscuit market. Additionally, the company toured India with buses through several hundred small towns to generate awareness. In a funny and touching Oreo TV commercial, we see a dad returning home from work, his little daughter, wearing mom's shoes, surprises him with a plate of the biscuits. The little princess shows her father how they are consumed, but in a funny twist, after dipping an Oreo in milk, she takes it away and eats it herself.

In Brazil, affluent consumers and those in the upper levels of the middle class are more westernized in their behavior and shopping habits. They may be the most open-minded consumers in the BRICs when it comes to buying foreign products and brands. Eight of the top 10 brands in Brazil are internationally owned, according to a TGI survey.

As a final word of caution, while the model proposed here can give some guidance in defining an initial strategy, of course there are many exceptions and special cases. This is true in specific market niches, especially in luxury goods. For example, French fashion house Hermès International recently created its own Chinese luxury brand called Shang Xia, despite the fact that most luxury brands position themselves as global brands. Two boutiques in Shanghai and Beijing sell clothing, jewelry, furniture and artwork inspired by the country's traditional handicrafts. The products are aimed at China's top-end luxury consumers and are all handmade. Hermès, which sells its finely crafted Shang Xia products at slightly less than the prices in its own luxury stores, tries to marry the elegance of traditional Chinese lifestyles with contemporary city living. The business, offering chairs and tea tables of rare zitan wood and cashmere dresses inspired by the traditional qipao, is so successful that Hermès announced an overseas expansion in 2012 with a store in Paris.

8.4 How It Works: The Market-Driven Brand Positioning Process®

As already stated in the first chapters of this book, there is more and more evidence that it is necessary to make adjustments in brand positioning as well as in overall marketing strategy in order to capitalize on the opportunities offered by the large growth markets. For example, the "Business Perspectives on Emerging Markets 2012–2017" survey identified some key factors that will determine how foreign companies will succeed in emerging markets through 2017 (Global Intelligence Alliance 2012). The three biggest success factors were "access to customers," followed by "adapting to local culture," and "building a strong brand." Adapting to local culture as a factor was deemed significantly more important by the survey's respondents than having local partners, good government relations or pricing. Among the top-12 success factors were six that directly dealt with adjusting or localizing key elements of a marketing strategy, among them "localized competitive positioning," "localization of products," and "localized promotion." More than 20 % of the companies in the survey said they should have adapted to local market conditions better; and "not adapting more to local conditions and prices" was declared the most common mistake in emerging markets. Now the question remains of how to actually adjust a brand to local expectations and requirements without necessarily turning the brand's perception into that of a local brand.

globeone uses a special analytical planning method called the Market Driven Brand Positioning Process®, or MDBP®, to help corporations and brand owners with the development of their market-driven brand positioning. Figure 8.7 displays the basic structure of this process. Complex data is used in this process to ensure that the brand promise is relevant to the local target groups and that it is differentiated from the local competitors, but at the same time still in line with the global brand positioning to avoid inconsistencies or conflicts. In many cases, the market-driven brand positioning process is also an opportunity for global corporations to reflect on their fundamentals and business models in light of the global game change that is under way. Not every corporation is ready for this or brave enough to take action as long there is still time to change without inviting an existential crisis.

The data that is fed into the model stems from various sources. Besides the use of primary and secondary market and customer research, it also commonly utilizes the perception of the brand in social media (sometimes referred to as opinion mining) or insights from internal CRM data to develop an optimized positioning for the local market. The goal is always the same: to boost desire for a brand and to lower acceptance barriers in the BRICs and other emerging economies like Mexico, Indonesia or Turkey.

First Step: Market Scan

The first step in this process involves gathering all relevant materials that are already available within the organization and adding market and consumer insights where necessary in the stage referred to as a market scan. This provides an overview

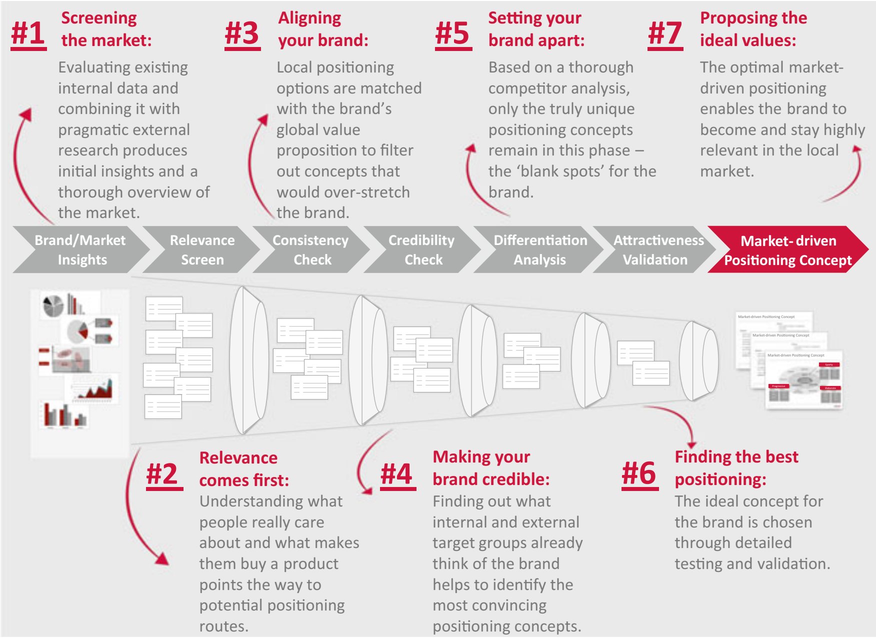


Fig. 8.7 globeone's Market Driven Brand Positioning Process®. *Source*: Schaffmeister (2013)

of the market, based on available company and competitor data, market statistics and relevant media reports. Usually, this alone gives a good picture already and makes it possible to integrate many relevant issues into the design of the following primary market research or market segmentation exercise. Our experience is that, in many cases, corporations already have a wealth of insights and data within their local country organizations and at the headquarters level. Often, however, the available knowledge is not properly used or supplemented in such a way as to generate meaningful and actionable strategies.

Second Step: Relevance Analysis

Once the market scan is complete, the next step is the relevance analysis, which identifies the key decision drivers for the brand in the different target groups that make up the market. For example, when customers are shopping for premium car brands, are they most interested in; "dynamic driving," or a "display of dominance," or a "display of their sophistication"? Or is it rather the; "advanced safety" of the car, "luxurious comfort," or "exquisite design" that the target groups base their decisions on? These are all crucial differences. In addition, what role do the issues of "connectivity", "innovation" and "sustainability" play in developing brand preferences and sales in each of the BRIC markets? How can a brand best contribute to building these preferences? Believe it or not, the key arguments for and against a certain car brand vary greatly across the BRICs as the specific conditions that are relevant to cars vary significantly. A few examples are:

- **Road infrastructure conditions** (How robust does the car have to be? Are there many poor roads with potholes, which may make an SUV essential?)
- **Traffic & weather conditions** (Are there many traffic jams, so the car would have to be especially convenient and connected? Can I experience dynamic driving at all? How easy is it to find a parking lot? Are there seasons with difficult weather conditions like very high temperatures?)
- **Safety levels** (How dangerous is driving—enough that people might favor larger cars and SUVs? How important are active and passive safety features?)
- **Driving habits** (Do I drive myself, or do I have a driver? Does the target group park, wash or maintain the car themselves at all?)
- **Seating preferences** (Does the owner sit in the back or front? How spacious and well-equipped does the back seat have to be? How much legroom is expected at minimum?)
- **Tech savviness** (Does the car need to offer the latest connectivity and entertainment interfaces? How wired is the target group, and what features are mandatory? What gadgets are nice to have but not essential for the decision?)
- **Local automotive traditions** (Are there many small cars in the market, as in India, with 3 or 5 door design? Or is the attitude that "only big is beautiful," as in Russia? Are hatchbacks an appropriate body type at all?)

As the BRICs vary significantly in these aspects, it is crucial to acknowledge the varying circumstances and to use them in developing arguments in favor of one's brand and its product lines. If the differences are too disruptive, a pure adjustment of the brand positioning and messaging alone will not be sufficient. In such a case, the product and service offerings also need to be adjusted in line with market expectations.

Typically the relevant data is acquired through target customer surveys or so-called "car clinics" that also include a relevance-performance analysis. Such an approach shows which factors are of greatest importance to the target group, and plots these factors against the current brand performance and key competitors in each dimension. If a comprehensive target customer survey is not feasible due to time or cost restraints, it is also possible to gain meaningful results from a small number of semi-quantitative focus groups combined with interviews of internal and external experts.

While global management usually tries to argue for a unified global approach, many have learned the bitter lesson that it can make a huge difference which aspects of the global brand model are emphasized locally; the right choices can reduce barriers and grow a locally relevant perception of the brand. While in some cases it is almost impossible to succeed while insisting on a unified global approach, in other cases it is possible but simply much more costly. These higher costs result from the much larger marketing and media investments necessary to convince people to buy something they are not currently looking for, as well as from weak demand and the consequent loss of pricing power in the local market.

An additional issue of similar importance in the fast-moving consumer markets of the BRICs is which, of the present main market segments, have the best prospects for development. Betting on the right growth segments is a crucial decision in markets that face increasing competitive pressure. As an example, in many of the growth markets the traditional administrative elites used to play a major role in the purchase of premium vehicles. These are the people who are close to the government, have strong personal networks and use them for business. In terms of their orientation, these segments usually consist of more traditional, status-oriented and sometimes patriotic people. Audi in China can serve as a model for a strategy relevant to this segment. Between 2000 and 2010, Audi's campaigns in China clearly diverged from the overall innovative technology positioning it was using globally. For selected models—especially the long-wheel base version of the A6—the brand focused intentionally on the more traditional elites with tailor-made China-adjusted communications that put Chinese culture at their center. Such ads featured the great achievements of the Chinese civilization such as calligraphy and related these arts to certain properties of the car such as harmonious design or dynamic acceleration. While this approach is visually very different from Audi's global "Vorsprung durch Technik" positioning, it proved to resonate well with China's traditional administrative elites. Figures 8.8 and 8.9 show the very different approaches that Audi used at that time.

However, with the rise of a more modern and open business elite population, the dominance of the political and administrative elites has begun to fade in recent years. As a result, today Audi, as well as Mercedes-Benz and BMW, are much more focused on these younger, more open-minded and lifestyle-savvy target groups.

– Campaign specifically designed to resonate with traditional elites (e.g. A6L) –

Fig. 8.8 Examples of Audi A6 campaigns specifically targeted China's traditional administrative elites. *Source*: Audi China

– Campaign that used a more global approach (e.g. A4, A8) –

Fig. 8.9 Examples of Audi A4 and A8 campaigns targeted at China's modern business elites. *Source*: Audi China

The latest campaigns reflect this strategic shift. Today, individual style, the latest technology and the individual joy of driving have proved to be positioning topics that work better and are therefore currently more frequently used as advertising appeals.

To summarize the thoughts expressed in this chapter so far, the single most important question is: What are the key brand drivers for the people in the most attractive market segments? In other words, what makes the people in focus prefer and buy a certain brand or product? What values do people really care about in the target group? What are the functional expectations regarding the brand, product and related service experience? What are the key emotions driving the segment?

A very crucial point to mention here is that our MDBP® process starts with "relevance" and includes all relevant functional and emotional brand drivers from the beginning. Many foreign companies do not start with this "relevance" step but instead begin from a very narrow position in terms of what they plan to offer in the market or how they plan to position themselves (e.g., many corporations that use a home replication strategy start with very little flexibility in terms of adjusting to local needs). However, taking too narrow of an approach from the very beginning poses a substantial risk to long-term success in the BRICs, as the products, solutions and brand promises that might really appeal to the market may never be sincerely considered as an offering. A company may compromise its prospects for success by trying to satisfy a new market with existing concepts that might not fit market expectations at all. This represents an unsophisticated approach to global marketing

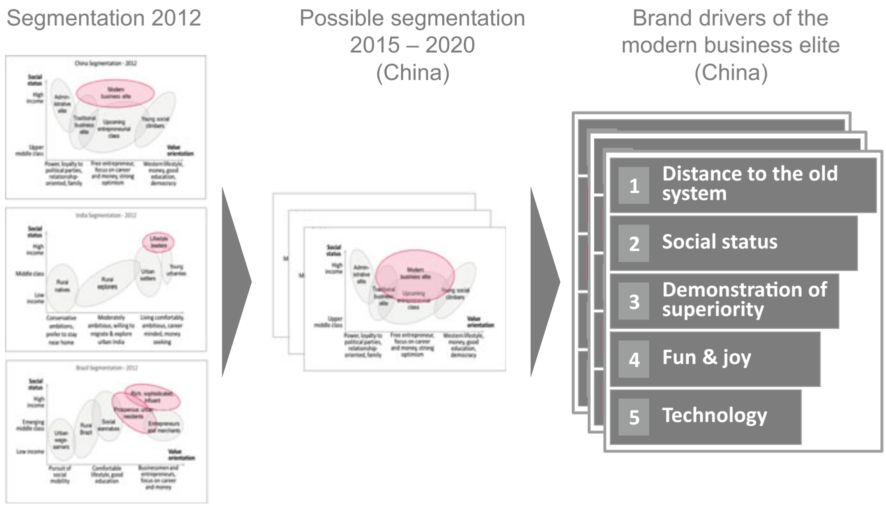


Fig. 8.10 Illustration of key brand drivers of the Chinese business elites in a specific product segment. *Source*: globeone (2013)

management and fails to capture the original entrepreneurial spirit that was often the basis of a company's initial and original success.

The following Fig. 8.10 is an example of the relevance of brand drivers in a specific target segment. In this example, the members of the segment "modern business elite" in China are keen to show off their newly achieved social status. They want to demonstrate superiority over the old system that did not allow them to fulfill their entrepreneurial dreams or to earn big money in the past. They see fun and enjoyment as a welcome distraction from their hard work and as a means to relax.

Third Step: Deliverability

Only after a company has looked at a market and the target group with an open mind should it then start to assess which of the relevant needs it can satisfy best. In some cases, this also means that some new competencies may need to be developed or acquired (e.g., through targeted acquisitions). What can actually be delivered may not depend only on tangible issues, such as relevant product portfolio or production know-how, but also on the brand's current image. Sometimes, global corporations are surprised at how differently they are seen in the local market as compared to their image in their home market. Consequently, it matters if the brand perception and brand image strength in a growth market are specific or strong enough to persuade target customers to trust the offered products or services. In the case that the corporation or brand lacks the required brand strength or relevant image associations, a systematic brand development exercise is required.

Fourth Step: Consistency

Besides the question of deliverability in the local market, alignment with the global brand promise also matters. The adjusted brand positioning or product offering in the specific growth market still needs to fit sufficiently with the global brand. If this is not the case, the situation will lead to conflicts with the global organization and complexities regarding the management of the brand later on. A certain degree of adjustment is usually necessary. However, if the required adjustment is too big, it might be wise to consider launching a separate brand in the market rather than stretching the existing brand or brand portfolio too far. It is important to be aware that the adjustment of a brand always has a substantial impact on the internal organization as well. In the best case, the adjustment of the brand enhances awareness within the organization that it is important to put customer focus first and to reflect relevant emerging market needs. However, in organizations that are marked by strong guidance from headquarters, a radical local adjustment exercise can also confuse management and other employees, particularly if the process and its strategic implications are not communicated appropriately internally.

Fifth Step: Differentiation

After the first four steps, there is still a need to understand the local and global competitor positioning in the local markets. Why? First of all, especially in fast-growth markets, the set of key competitors is often substantially different. For example, JAC, an automotive brand that most people in Europe or the United States have never yet heard of, already has a deep footprint in the Brazilian market, with many super-size dealerships and aggressive marketing tactics. That is because the Chinese management of JAC selected Latin America as a priority market due to its lower standards, and it has thus expanded there aggressively. Therefore, it is necessary to screen the local markets for the relevant competitors, even if they are not at all relevant in the home market.

There is also another reason why a careful analysis of competitor positioning should be mandatory in any positioning exercise. Global competitors that managers consider very familiar from their home markets sometimes develop very different positioning in BRIC markets as compared with the home market. One example is Hyundai, the Korean car maker. Hyundai is positioning itself as a smart, good-value-for-the-money choice in Europe or the United States, however its positioning in growth markets can differ fundamentally. In China, for example, Hyundai is making inroads into the upper middle class and positions many of its higher-end models as prestigious and valuable, thereby commanding higher price premiums. This positioning would be difficult to sell to the more sophisticated clientele in developed automotive markets like the U.S. or Germany. However, less experienced target groups in the BRICs buy into this premium positioning. So while Hyundai might not be considered as a competitor by German premium car brands back home in Germany, it might very well be a reasonable competitor in some of

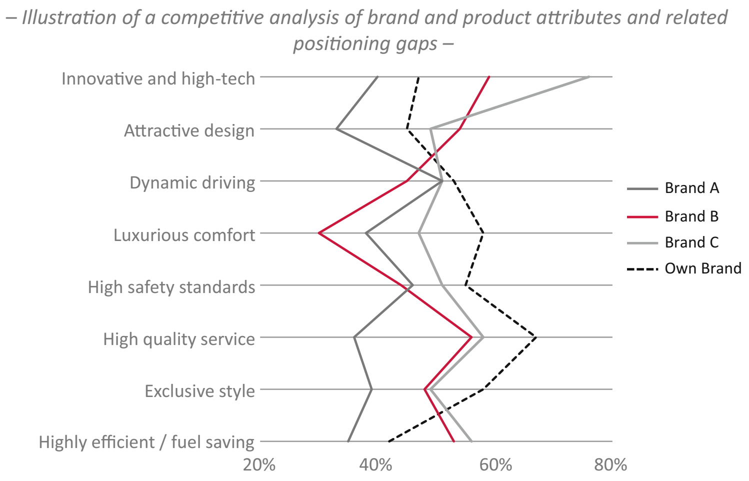


Fig. 8.11 Example for a positioning gap analysis across different competitor brands. *Source*: globeone (2014)

the BRICs. Consequently, foreign car brands are well advised not to exclude Hyundai from their competitive radars—even in the premium segments. Similar observations hold true for the Korean tire brand Hankook. The dynamic brand has even created a special campaign for China that specifically highlights its prestige factor and premium quality. As this emotional prestige positioning would be less convincing in the German or U.S. markets, Hankook focuses there on dynamic driving and motor sports instead.

What does a competitive communication analysis look like? It is an analysis of competitor positioning through all relevant communication channels (e.g., print ads, TV campaigns, websites, online specials, POS materials, dealerships, PR activities, customer experience events, CRM tools). Based on these materials, the key messages, claims, core promises and reasons to believe for the specific product, as well as for the overall brand, can be analyzed. It is even possible to assign ratings to the different approaches and to create a strategic positioning map. The result is a sound and relevant understanding of any "blank positioning spots" in the market and of positions that are currently already firmly occupied. To achieve successful, market-driven positioning this information is crucial, as it ensures that the brand can be positioned in a differentiated way and that the creative execution and tonality are unique. Figure 8.11 shows a simplified version of such a positioning gap analysis.

Sixth Step: Derivation of Optimized Positioning Routes or Product Concepts

Once all the data is available from the previous five steps, it is possible to select the brand and product propositions that are most promising. At each step of the market driven brand positioning process, some options are eliminated. The options that survive the rigorous process are clearly superior to those that have been excluded. Based on the best concepts and related brand promises, it is then possible to form consistent positioning "routes" that can then be tested in the target groups and further optimized. In a similar way, such a process can also be utilized to generate winning product and service concepts.

In order to maximize growth, many foreign B2B and B2C brands face a major challenge. On the one hand, they have a strong global corporate brand and product brands that are defined globally and which are usually controlled by headquarters. On the other hand, there is the local market with local target groups, different local competitors and a totally different economic landscape. Consequently, the target groups might favor a product for different reasons. Consider Smart, for example, in a new growth market it would be important to inform target groups about the German brand origin of Smart to generate confidence in the quality and durability of the vehicle. Despite the fact that Mercedes-Benz and Smart are clearly separated in most developed markets, it is crucial information to let BRICs consumers know that Daimler Group is behind the Smart brand, as this is a massive differentiator in competition with locally made micro-cars. In addition, in a place with millions of first-time drivers on the roads and many accidents, the high safety standards of Smart would definitely be a key concern for local target customers (while this feature is already learned in Western markets). Last but not least, it might be relevant to point out the global success of the car in cities across the world where sophisticated urban elites are already using the car almost as a fashion item.

This hypothetical example shows that there can be many good reasons for an adjustment of the positioning and the related value propositions of a global brand or product for a local market. As argued already, sometimes this local adjustment might paradoxically consist of highlighting the foreign, or in this case German, roots of a brand even more. So local adjustment can mean making a global brand appear even more foreign if the local target group is likely to favor such a position.

A local adjustment process might also very well affect the substance of the product as well. The following Fig. 8.12 shows how BMW has been adapting to market realities in China by offering longer-wheelbase models. The long-wheelbase version of the new BMW 3 Series is shown as an exclusive model for the Chinese market, where Chinese elites employ drivers and like to have more space and control options in their back seats. Frequent—and increasing—traffic jams in large Chinese cities often turn the car into a mobile office where work like; telephone conferences and email checking can be done. Beyond that, the car is also a business tool in the sense that it is used for hospitality and to pick up clients. The long-wheelbase versions were initially limited to the 7 Series only. However, an adjustment to market realities led BMW to also offer the 5 Series and most recently the 3 Series in versions with a stretched wheelbase.

Fig. 8.12 Adapting products to market realities: BMW with the long wheel base versions for the Chinese market. *Source*: BMW China (2014)

8.5 Utilizing Local Cultural Values and Related Consumption Drivers

Demanding careers, frequent business travel and long office hours: Upwardly mobile consumers in large growth markets pay a price for their success. They have less time for themselves and their families and this is why convenience has become a new buzzword and philosophy. Professionals are trying to save time wherever they can in order to still find enough time for their families. It is no wonder eating out is on the rise as cooking at home takes too much time. The eating-out culture, as some call it, has caught on like never before, from India, to China and Brazil. But while new habits spread quickly, old tastes die hard.

The Gateway Hotels and Resorts chain of India's Taj Group has started to offer their guests authentic home-cooked food that is prepared and catered by individual moms in their own kitchens and then brought to the hotels. Every hotel in the chain tries to offer authentic representations of a region's cuisine. This is not only happening in hotels, but global food brands like Maggi and Knorr are also designing their growth strategies in Asia around trends like this. Local competitors are following suit, among them the Chinese instant noodle champion Master Kong, which won the "Best Brands China Award 2014" in the product brand category - from the advertising agency Serviceplan (Serviceplan 2014). This all goes to show that there is a growing need for convenience and fast food, even while home-cooked flavors still reign supreme.

While some attitudes do not change, others evolve quickly. Indians, for example, are shedding their former disdain for conspicuous consumption at an astonishing speed. This is happening more in middle-class urban India than in the rural parts of the country. In decades of socialist rule, people on the subcontinent were used to being frugal. Many believed it was the only way to live and survive. But now, luxury magazines are constantly displaying colorful and fashionable products that cry out to be bought. India's new maharajas—entrepreneurs, young professionals, career women and the rural rich—are chasing luxury goods. The strongest group driving the departure from frugality are young Indians who were born around the start of the reforms in the 1990s. They have made their first money and they want to spend it big-time. There are millions of these new, first-time shoppers who will fuel growth for many years to come.

Foreign brands that want to join the gold rush need to be familiar with the local consumer's preferences as well as the local cultural context in which these preferences have developed. But what is culture? What are cultural values, and why are they relevant to successful brand development and marketing strategies? The following discussion will shed light on these questions. In addition, a basic model of relevant cultural values and related consumption motivations will be presented for each of the four BRIC markets.

Defining culture is a daunting task. In a comprehensive review published in 1952, Kroeber et al. listed 164 different definitions (Kroeber and Kluckhohn 1952). As used in diverse literature, the term "culture" can mean many different things, from fashion to ancient customs, from artifacts to traditional rituals, from enduring practices in the home and family to icons venerated in great national palaces. In more tangible terms, what one might call culture is "man's response to his innate drives." For example, eating is biological, but how one satisfies one's hunger is cultural (White 1964, cited in Yin 1999, p. 31).

In sum, culture can be defined as "learned communalities in beliefs, values orientations, behavioral patterns, and symbols of communication, community relationships and rituals that are shared by most of its members despite variations among classes, areas, groups, and individuals" (Kroeber and Kluckhohn 1952).

While culture refers to the total pattern of human behavior in society, cultural values are defined as "a set of enduring beliefs concerning preferable modes of conduct or end states of existence which are shared amongst people from the same cultural background." In short, cultural values express shared conceptions of what is good and desirable in a certain culture, or cultural ideals (Rokeach 1973; Schwartz 2006, p. 134). Consequently, marketing has found that values are a powerful force shaping consumers' motivations, lifestyles and product choices (Tse et al. 1989, p. 459; McCracken 1990).

While family, society, religion and schools continue to transmit cultural values, in the post-industrial age, mass media, digital and social media have become another major institution that transmits these values. Advertising has been found especially influential with regard to the portrayal and transmission of cultural values. At the core of advertising messages, cultural values are endorsed, glamorized and reinforced (Pollay et al. 1990, cited in Cheng 1994, p. 171).

Since marketing communication and advertising are based on language and images, they are strongly influenced by cultural values (Usunier 2000, p. 453). The culture in which individuals are socialized influences the way their communication takes place. To a certain extent, people are conditioned by their culture and society. Therefore, what to say, how to say it, and in what situation something is said varries across cultures. In marketing terms, cultural differences have been recognized as a reason that consumers in different nations, who have different needs, may hence require tailored brand images (Roth 1995, p. 57). Consumers across the BRICs and other growth markets respond to marketing communications in a manner that is congruent with their cultural values and norms. Therefore, achieving effective commercial communications requires an understanding of the social and cultural context in which these communications take place. For example, the cultural characteristics and values indicate what brand positioning approach or advertising theme may work better in a particular country's market.

The question still remains; what are the specific cultural dimensions that are meaningful to marketing? A number of influential value frameworks have been developed, such as Hofstede's value framework, which refers specifically to work-related values (Hofstede 1980, 1984). While Hofstede's framework has been applied to many different contexts, its explanatory power for marketing research has been limited. More recently, the sociologist Shalom Schwartz has developed a complex value framework that appears useful in describing systematic value variations across different countries (Schwartz 2006). Based on data from 73 countries, Schwartz was able to identify seven major cultural value dimensions to distinguish different cultures. These value dimensions are as follows (also see Fig. 8.13 that maps these value dimensions on a two dimension space):

– Harmony (unity with nature, world peace)
– Embeddedness (social order, obedience, respect for traditions)
– Hierarchy (authority, social power, wealth focus)
– Mastery (ambition, daring, success)
– Intellectual autonomy (broadmindedness, curiosity, freedom)
– Affective autonomy (enjoyment of life, pleasure, excitement)
– Egalitarianism (social justice & responsibility, equality)

In the comprehensive validation of his value model, Schwartz also compared the mean values for each country in all seven dimensions and aggregated the data into a map of seven cultural orientations that you can see in Fig. 8.14. While it would be too time-consuming to explain the whole model in detail, a few key findings related to the BRIC markets in focus should be highlighted.

First of all, it is clear to see that there are substantial differences in value orientation between most Western European countries and the BRICs, especially China and India. China and India score very high in terms of "hierarchy" as well as in terms of the neighboring dimension, "embeddedness." The high score in "hierarchy" refers to the fact that, in many Asian cultures, a more unequal distribution of power, roles and resources is regarded as legitimate. People are socialized to take the hierarchical distribution of their roles for granted and to comply with the

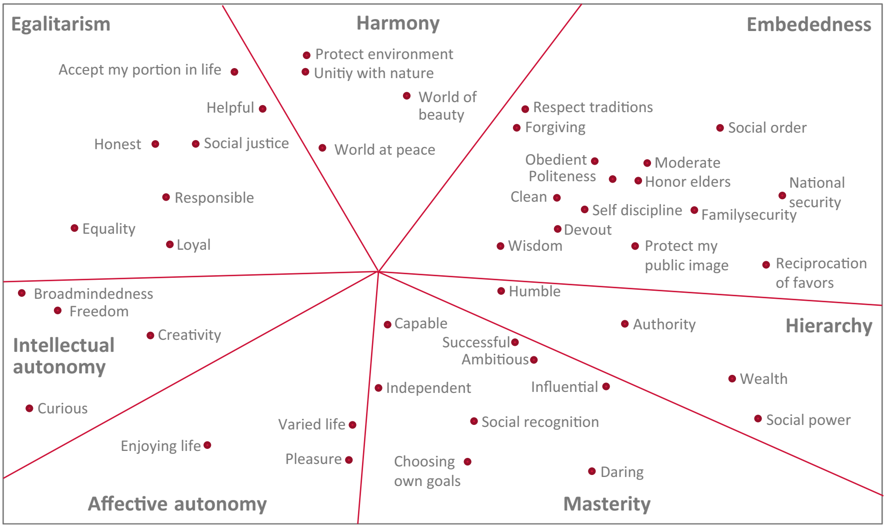


Fig. 8.13 The main value dimensions that differ across cultures based on Schwartz (2006)

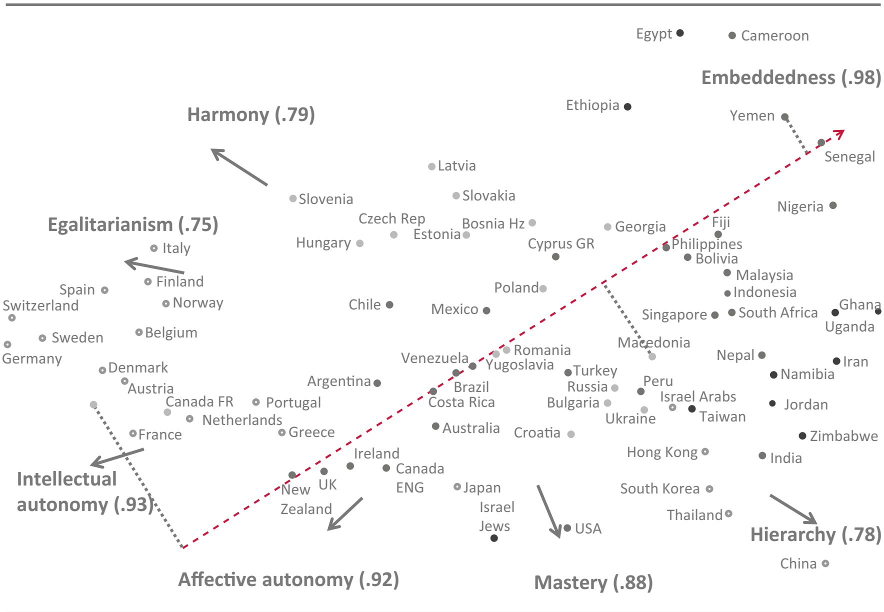


Fig. 8.14 Cultural dimensions and their relative proximity to specific countries. *Source*: Schwartz (2006)

obligations and rules attached to their roles. The Indian caste system—while formally abolished in 1950—still guides social relationships in modern India and is probably one of the best examples of a hierarchical social order. The second dimension, "embeddedness," refers to the fact that people are more definitely regarded as entities that are embedded in the collectivity of a family or institution. In such cultures, meaning in life comes largely from social relationships and group identifications. In cultures like China and India that score high in this dimension, respect for tradition, obedience and wisdom are more common than a high level of autonomy, individuality or self-fulfillment.

The value profiles of Russia and especially Brazil are much more balanced and closer to the center of the mapping. However, compared to Western Europe, these countries still feature a substantially higher level of "hierarchy" and "embeddedness." Interestingly, China also scores relatively high in terms of "mastery" and "affective autonomy." These are most likely related to the impressive transformation process the country went through following the early 1980s. For an average Chinese, it is a common observation that in modern China, individual well-being is closely related to individual effort, education and entrepreneurial spirit.

The main difference between the BRICs and Western Europe appears in "intellectual autonomy" and "egalitarianism." Countries such as Germany, Italy and Sweden score especially high, i.e., in the pursuit of personal ideas and intellectual directions. In addition to this, a high level of "egalitarianism" highlights the fact that people there have internalized a commitment to cooperate (even outside one's own group) and to feel concern for everyone's welfare. This also marks the key difference between Western Europe and America. While the U.S. scores high in "mastery" and "affective autonomy," Western Europe is substantially more focused on "egalitarianism," "harmony" and "intellectual autonomy."

While the Schwartz framework can admittedly only reflect the major value orientations, it provides an important framework for a deeper analysis of segment-specific consumer values that every global marketer should have heard of.

After we have considered the major value orientations that differ across countries and important subgroups within countries, the question remains; to what extent is there a positive relationship between the (cultural) values that a brand communicates and the acceptance of this brand by members of a certain culture? In marketing research, this relationship is also known as the "similarity-acceptability hypothesis"—that is, the more similar the values that a certain brand communicates are to the values held by members of a certain group, the more likely it is that the brand will appeal to this group.

While most global marketers and brand experts will know some good examples of such relationships (i.e., examples in which correctly addressing relevant cultural values was the key to market success), scientific research falls short of offering strong empirical evidence. This is most likely due to the fact that real-life data on such success stories is usually confidential and is rarely published or scientifically analyzed.

However, a recently published survey by Toronto-based market researcher Fresh Intelligence from 2011 delivered comprehensive empirical evidence that a brand's ability to reflect consumers' core values in different regions directly affects its

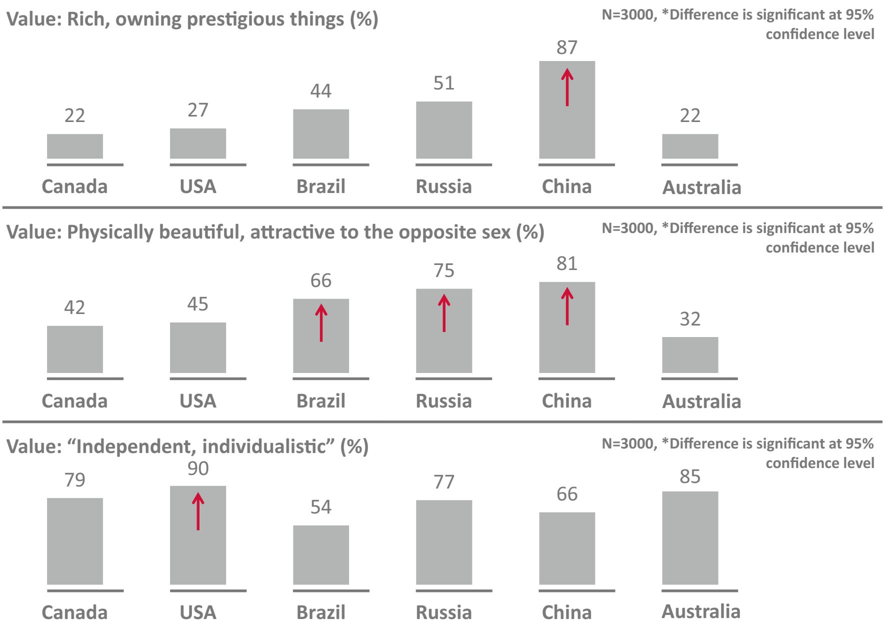


Fig. 8.15 Relative relevance of different culture-related values across different countries. Sample of 3000 respondents. *Source*: Churkina and Sandler (2011)

sales. The company compared brand messages, perceptions, consumer values and sales performances of famous global brands in countries like Russia, Brazil, China, the United States and Canada. Assessments of consumer values were based on 22 different qualities, like "enjoying life to the fullest," "caring about friends and family," "being respectful to tradition" or "being successful" (Churkina and Sandler 2011).

The following Fig. 8.15 displays some of the key value differences that the market researchers identified across the BRICs and other countries in the sample. For example, following the rapid transformation in recent years, Chinese (87 %) and Russians (51 %) placed high importance on "getting rich and owning prestigious things." The same held true regarding the concern for "being physically beautiful and attractive to the opposite sex" (China 81 %, Russia 75 %, Brazil 66 %). On the other hand, the U.S. (90 %), Australia (85 %) and Canada (79 %) ranked at the top in terms of the value "being independent and individualistic."

The researchers developed a model for testing shown in Fig. 8.16 that predicts that glocalization score and brand strength index are closely correlated. The general findings of the empirical test based on 3000 respondents in six countries, leaves little room for interpretation: Brands that tailor their brand promises and communications more closely to relevant consumer values in a specific market perform better in these markets than brands that do not (see Fig. 8.17). Overall the ability to "glocalize" a brand explained 55 % of the variation in success across the

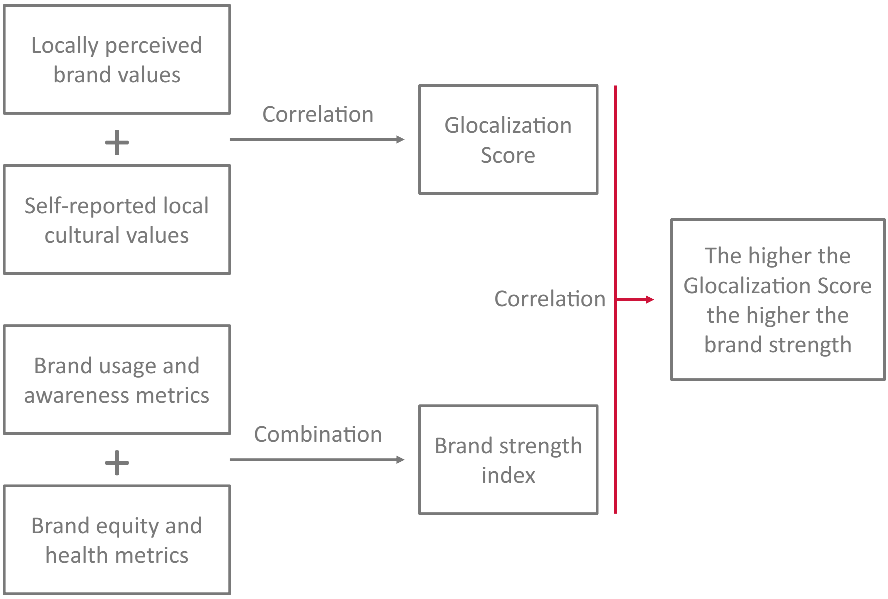


Fig. 8.16 Model for testing: glocalization score and brand strength index are predicted to be closely correlated. *Source*: Churkina and Sandler (2011)

Country	Correlation coefficient between Glocalization Score and Brand Strength	R2 coefficient of determination (%)
China	0.79	62
Russia	0.73	55
Canada	0.76	53
Brazil	0.71	50
U.S.	0.66	44
Australia	0.62	38
For all 6 markets	**0.745** Correlation is significant at the 0.05 level	**55**

Fig. 8.17 Strong positive correlation was found between the glocalization score and brand strength. *Source*: Churkina and Sandler (2011)

ten Western brands in the sample. In addition, it was found that countries with very different sets of cultural values, like China or Russia, featured an even higher correlation between the glocalization (or as we term it, market-driven positioning) of the brand and its success in the local market. China showed a correlation of 0.79 while Russia scored 0.73 (Churkina and Sandler 2011).

Therefore, foreign brands that intend to join this gold rush need to be smart about utilizing the local cultural values and habits of new consumers in the different layers of the income pyramid. They must be familiar with the related consumption motivations and purchase drivers in their specific category or risk falling behind.

Cultural values and habits in the BRIC countries are very different but there are also some commonalities such as a clear family orientation and a strong national pride. The following section will develop an in-depth overview of the key cultural values that hold implications for successful brand development in these markets.

In **China**, Confucianism, the country's advanced transformation into a market economy, and massive foreign influences in the wake of the "opening-up" policy are the prevailing influences that also impact cultural values. Probably the most discussed cultural feature of the former Middle Kingdom is its strong collectivist orientation. Besides Confucianism and the decades under strict communist rule, scientists frequently resort to the "rice argument" to explain the difference from the prevailing individualism in the West. "Rice cultures need the coordinated flooding of rice fields, which promotes dependence among the group members and requires common action within a village community. Conversely, the basic staples in the West are based on individualistic cereals (wheat, barley, oats), where the farmer's achievements depend mostly on his or her own individual efforts" (Usunier and Lee 2009).

However, the rapid transformation of China—including the ubiquity of global advertising—is affecting the traditional value systems. A trend towards individualization, even though it remains within strict boundaries, is clearly visible. It is inciting the creativity and the fantasies of marketers as these new values and influences lead to a related new set of motivations for consumption.

At globeone, in many projects in China, we have noted the high relevance of status and social prestige, combined with a strong desire to show off personal success. The blossoming middle class is proof that there are tens of millions of such individual success stories. The more advanced and higher-income segments have already moved well beyond a simple wish to be socially recognized. Here, consumers are likely to be even more aware of their personal abilities and want to be regarded as the elite, the "driving force" of modern China. Additionally, there is a visible drive to demonstrate "cosmopolitan sophistication" and claims of "belonging to the global village." In their advertising, international car manufacturers like to refer to these motivations by showing young, well-dressed, aspiring professionals in front of their new cars, with symbols like Paris' Eiffel Tower or the skyline of Los Angeles in the background. The appeal of international settings and places in Chinese advertising is further fueled by the high level of foreign travel as well as the popularity of foreign television series and Hollywood culture.

Fig. 8.18 Extension of the “Pilot” theme for the launch of the latest BMW 5 series in China. *Source*: BMW China (2014)

The launch campaign for the second generation of the BMW X5 featured a group of cool *Top Gun*-like pilots walking down the airfield to a hangar. But instead of a jet, the X5 SUV comes out of the dark hangar, and the pilots drive it through a typical American desert setting. The campaign clearly struck a chord with its target group by featuring these cool and independent pilots, as many young Chinese men are very interested in the military, especially the Air Force. This goes well with the impression that the X5 is a very dynamic vehicle that can dominate any road. In some ways, this dynamic impression also resonates with the self-image of the young and affluent target groups for the vehicle. The fact that the scene was not shot in China but on an American airbase added further to the international appeal of the campaign. Overall, the “Pilots” commercial was reportedly one of the most successful BMW TV advertising campaigns ever. Consequently, the “Pilots” motif lives on and was even utilized for the launch of the latest 5 Series as can be seen in Fig. 8.18.

In China, there is also a strong perceived importance of family and children, as well as pressure to meet the expectations of parents and ancestors. This is why foreign car manufacturers—among them Volkswagen—like to show happy families in their new models, with smiling grandparents and the “little emperor” in the back seat with lots of toys visible through the open hatchback. As compared to the prevalent advertising motifs in Western countries, it is clearly recognized in advertising research that family, parents and grandparents play a more dominant role in Chinese advertising. The described Volkswagen campaign is displayed in Fig. 8.19. The corresponding overall value model and related motifs for consumption in China are summarized in the following Fig. 8.20.

India’s prevailing cultural values and influences—family orientation, national pride, the strong focus on uniquely Indian tastes, hierarchical order and a culture of debate and democracy—are translating into its own unique set of predominant motivations for consumption and purchase drivers.

Most closely related to the market’s strong family orientation is the high importance placed on the well-being and status of the family. This is quite similar to the situation in China. The concern for the close and extended family acts as a motivator for many purchase decisions. Consequently, this also appears frequently

Fig. 8.19 The strong importance of the family and their "little emperors" is a frequently utilized theme across a wide array of product categories. *Source*: Volkswagen China (2014)

Cultural values and influences	Related consumption motifs	Expression in advertising (selected examples)
Confucianism	High relevance of status and social prestige (strong desire to show personal success)	**Cadillac CTS** reflects the high status of the brand through showing how the flashy successful car driver uses the racing flag as cuff-link
Collectivism/social responsibility	Wish to be recognized as a driving force of China ("movers and shakers") and show freedom & cosmopolitan sophistication	**BMW** frequently depicts the BMW-drivers as a pilot s to reflect the target groups desire for leadership, dominance and freedom
National pride	Desire to "explore the world" and to experience exciting things (be part of the "global village")	**Toyota** appeals to Chinese buyers through showing that the Camry is happily used all over the world from New York to Paris to Shanghai
Transformation into market economy	Strong perceived importance of family – incl. the 'little emperors ' as well as grand parents – & pressure to meet parent's expectation	**Volkswagen** knows that family is very important for Chinese and depicts family joy on a road trip with the VW Touran
Foreign influences/ modernization	Discovery of the individual 'me', wish to select a brand that fits own emotions and individual style	**Mercedes-Benz** features campaigns that grant much space for the individual and it's needs for freedom and self fulfillment
Trend towards individualization within strict boundaries		

Fig. 8.20 Cultural values and influences and their impact on key consumption motifs and advertising themes in China. *Source*: globeone research (2014)

as a guiding theme in marketing communications. No matter if the ad is for frozen food, financial services or the next comfortable family car—many brands emphasize the close relationship of the product or service to the well-being and happiness of the whole family.

Besides this orientation towards family, India displays a high degree of national pride and patriotism. This is typical of the large nation, which is marked by an inward-looking attitude and has for decades maintained a comparatively high level of isolation in terms of global trade and foreign direct investment. On the consumer side, this does not mean that consumers are rejecting foreign brands. However, it does imply that in many consumption contexts there is a high preference for uniquely Indian products and local flavors, as long as Indian brands have something to offer in the category. Scientific literature refers to this as consumer patriotism. In some areas, this national pride can also translate into a motivation to "personally contribute to the rise of incredible India." Consequently, local and global brands that advertise in the context of major sporting events like the annual Ranji Cricket Trophy or the Deodhar Trophy have regularly appealed to this attitude.

India's changing society is also marked by rising aspirations with respect to personal status and careers. This is why automotive companies like to run ads that show their cars in large, glitzy rooms that connote splendor, aspiration and opulence.

Conforming to local customs, many of them rooted in religion, is another important driver for consumption and the formation of attitudes and preferences. In 2008, Saikat Banerjee of the Indian Institute of Foreign Trade published a paper on "Dimensions of Indian Culture." It acknowledged that India is so heterogeneous that marketers have difficulty identifying common threads of Indian culture and core values. Banerjee distinguished four categories that define Indian culture: languages, symbols, rituals as well as customs and traditions. There are many interesting examples of how marketers have made successful use of cultural values and habits in order to better communicate with their customers. Insurer ICICI Prudential, for example, is credited with using the shoulder as a symbol of dependability. In India, "committing one's shoulder" is a widely used way to express a sharing attitude. Banerjee credits Visa in another example for using a familiar custom. In one of their commercials, Richard Gere uses his Visa card to buy birds for a little girl who cannot afford to pay for them herself. It turns out the girl wants to set the birds free as a sign of good luck for her brother, who is leaving home.

Traditionally, Indians have placed a heavy emphasis on education and hold high aspirations for social status and career. This attitude is further fueled by the social transition India is going through, which produces many winners and losers. Volkswagen India employed this aspirational motivation in a very emotional TV commercial. This famous spot features a little boy walking through a VW showroom who wants to book the cars in advance. The sales person treats the 10-year-old boy with great honor and respect, just like a real customer ready to buy. Together, they plan for the next stages of his career—which will include a VW Beetle for his

18th birthday, a VW Jetta for his 24th birthday, when he will become the vice-president, and finally the VW Passat when he will be the CEO.

Wherever there is a proud local culture, centurie-old traditions and tight family bonds, there also is the wish to break away from old habits and traditions in order to become more individual, and to show independence and distinctive taste. Consequently, advertising appeals that feature individualism, sophistication, personal choices and self-fulfillment are becoming more popular in targeting the urban upper-income segments. This is why Lavie, one of the leading manufacturers and suppliers of fashion handbags in India, shows young and successful women wearing custom fashion outfits and stylish leather bags in front of luxury apartments, alluding to their growing economic independence. In one famous TV commercial Lavie stages an extreme case of individualism with a lady that just can't make up her mind which color fits her best—driving the sales person almost crazy.

The Indian family, which, especially in the urban centers, is increasingly torn between modernity and tradition, is a popular theme in advertising campaigns. Take "Kurkure" ("Crunchy" in Hindi), which was developed in India for the local market by Frito-Lay India, a subsidiary of PepsiCo. Kurkure is a salty snack that created a bridge category between Indian *namkeens* (snacks that are typically eaten with tea or coffee) and Western potato chips. With local ingredients and flavors, Kurkure is designed to appeal to local taste buds in India. Among the flavors are strongly localized tastes such as "masala munch," "green chutney Rajasthani style," and "tamatar Hyderabadi." In early 2013, Frito-Lay announced its latest campaign, which is aimed at deepening the Indian roots of the brand. Part of the campaign is the introduction of a new "Kurkure family," with five new brand ambassadors, among them the well-known Indian actress Parineeti Chopra. This "family" is supposed to reflect the changing dynamics of Indian families. Some consider it a twist on tradition, even a caricature of the modern Indian family. Among the members is the sassy young *bahu* (daughter-in-law) who likes to ride bikes. The husband is full of Bollywood dreams and his older brother plays video games, while his child is addicted to Kurkure snacks. The *dadi* (grandmother) is a social butterfly and young at heart. Indian film actress Parineeti Chopra plays the wife, who is the anchor of the family; she is very modern yet still respects traditions. According to PepsiCo, Chopra personifies today's daughters-in-law, who are the messengers of change in Indian families.

The above-described advertising appeal reflects the purchase motivations of the upper-income brackets in urban India. While some sales patters prevail everywhere, other motivations can be completely different in the rural parts of large growth markets. Consumers beyond the top-tier markets focus more on value for the money, instead of frills. They prefer functionality, and in rural areas, religious and traditional feelings tend to run even stronger than in urban centers, where foreign influences, advertising and modern lifestyles are more widespread. A couple of years ago, Nokia made inroads in India with the 5110 cellular phone, which displayed India's tricolor flag and used the "Sare Jahan se Achcha," a famous Indian patriotic poem and song, as a ring tone. Nokia also launched the 1100 model as an entry-level mobile specially designed for emerging markets. The "made for

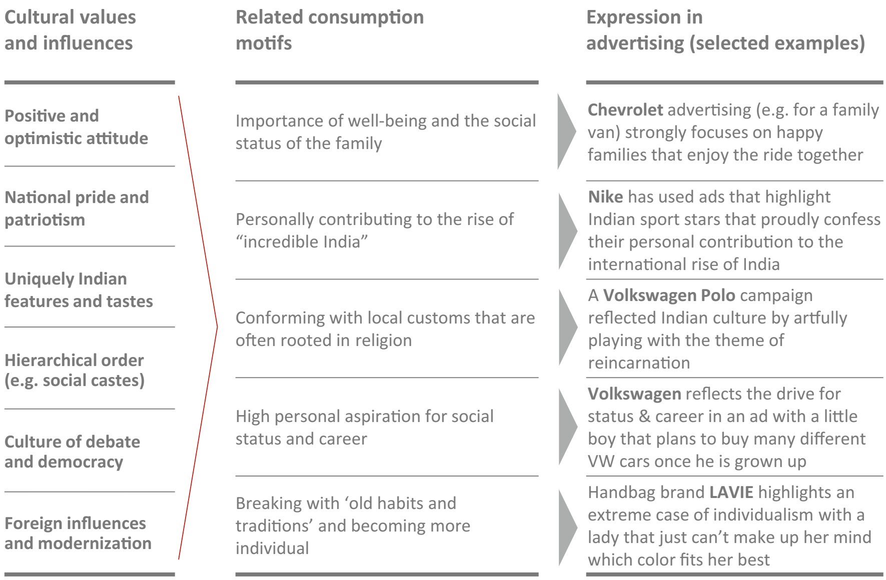


Fig. 8.21 Cultural values and influences and their impact on key consumption motifs and advertising themes in India. *Source*: globeone research (2014)

India" cell phone had a flashlight to help out during frequent power outages. It was dirt-resistant, had an anti-slip grip and a low price. Nokia was rewarded with market leadership in India, gaining a 39 % share by 2011. Figure 8.21 provides a summary of the main cultural influences and related consumption motifs in India.

As with China and India's cultural value systems, **Brazil** shows its own unique set of values and influences that are relevant in shaping successful positioning strategies and related marketing communications. First of all, Brazil is marked by a very strong orientation towards people and family. In many cases, it is very important for Brazilians to get to know somebody as a person before they will be interested in his or her business or competencies. This people-orientation is combined with a distinct openness to foreign concepts, as well as a generally optimistic attitude and a significant focus on sensorial and esthetic experiences. The flexibility of Brazilians is remarkable. Jean-Claude Usunier, in his book Marketing Across Cultures (Usunier 2000), describes one typical situation that tells a lot about the flexibility and pragmatism of Brazilians, which also gives them the ability to "bend" official rules. Usunier writes about his experience with traffic lights in Brazil. When visiting friends in Rio who worked for the Brazilian census bureau (IBGE), he observed that the rules—red for stop, green for go—can be rather situation-specific. While they are respected during rush hour and heavy traffic, traffic lights seem to be regarded as just optional for people driving on major through roads during quieter times. Drivers emerging from smaller streets cannot completely rely on their green lights because drivers on the major roads tend to bet

Fig. 8.22 Social status counts: this TV ad features a Brazilian lady who is rewarding herself with a Magnum ice cream and feeling treated like a queen. *Source*: Unilever Brazil (2014)

on their natural advantages of driving with the majority. At night, in some quarters of the bustling city, drivers just do not stop at red lights at all as they are simply afraid of being attacked by robbers.

The desire to express one's social status and prestige to others is a strong motivation for consumption decisions in Brazil too. It is a general phenomenon that is present in all major growth markets. The following campaign example in Fig. 8.22 for Magnum ice cream from Unilever Brazil nicely illustrates the slightly exaggerated role of social status in Brazil.

Finally, a love of nature and pride in being Brazilian are also themes that constantly find expression in advertising. No matter if an ad is for skincare products, cars or ice cream; advertisements show happy people, beaches, music and dancing, bright lights and outdoor scenes all the time. Guaraná Antarctica, in one well-known ad, features Brazilian football star Neymar Jr. and another young man in their beach chairs sipping the company's flavored soft drinks. When they start to talk about Europe, dark images of people playing soccer in snowstorms emerge. You see Neymar returning to the beach, shivering and rubbing his chest because it is so cold and unfriendly on the other side of the Atlantic. The boys in the ad instantly decide to stay home in beautiful Brazil. In the closing scene they are joined by a group of pretty girls dancing on the colorful beach.

The following Fig. 8.23 shows how cultural values and other external factors impact on motivations for consumption and related advertising appeals and story-telling in Brazil.

Russia is characterized by its own unique system of cultural values, which are closely related to the history, geography and social reality of Russia. As outlined previously in Part II of this book, Soviet-style collectivism and close family orientation still plays a major role in modern Russian understanding. This is further encouraged by the Orthodox value system as well as the need for informal networks and family ties, which were vital for survival after the reforms of 1990 resulted in

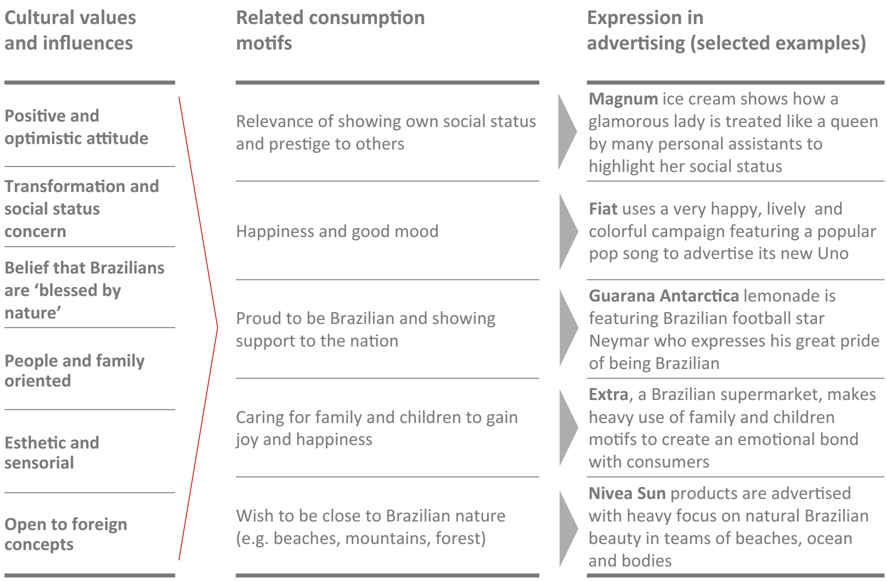


Fig. 8.23 Cultural values and influences and their impact on key consumption motifs and advertising themes in Brazil. *Source*: globeone research (2014)

economic collapse and widespread mistrust in Russian society. A strong orientation towards personal connections with those in positions of power or owners of resources is a related outcome of this. Another factor that shapes the Russian soul and consumer preferences is the harsh natural environment, featuring low temperatures, long distances and relatively weak infrastructure. The Audi campaign featured in Fig. 8.24 specifically highlights how Audi SUVs master this harsh environment and the difficult road conditions. Besides these natural difficulties Russians are also used to dealing with challenges related to weak institutions, a very volatile economy and the domination of the state in many aspects of life.

A distinct national pride, admiration of the proud Soviet heritage, and respect for state authority, hierarchies and sometimes the military, mark additional features common in Russian society. These more nostalgic themes are forcefully counterbalanced by more modern and forward-looking themes, such as the new consumerism, also known as *vashizm,* and a strong orientation towards foreign concepts, including a stronger individualist orientation. Figure 8.25 gives an overview of these value orientations and influences, selected motivations for consumption decisions as well as related expressions in advertising.

Showing foreign sophistication is a frequently used advertising appeal in Russia. The ad for the Range Rover Evoque shown in Fig. 8.26 further highlights the foreign appeal of the brand by staging the vehicle in a New York setting. Despite political conflicts with the U.S. and the European neighbors, Russian consumers still strongly favor foreign brands and regret that access to foreign brands is

Fig. 8.24 The land of Quattro: Russia's roads are challenging and consumers like vehicles that can master these harsh conditions. *Source*: Audi (2014)

Cultural values and influences

- **Collectivism, family and connection orientation**
- **Longing for old Soviet times and values ('Homo Sovieticus')**
- **National pride, wish for respect and hierarchy**
- **New Consumerism: 'Vashizm' ('I consume, therefore I exist')**
- **Mistrust, state domination and rough environment**
- **Foreign influences, market liberalism and rising individualization**

Related consumption motifs	Expression in advertising (selected examples)
Showing-off & foreign sophistication: generally wish to impress others without being apologetic about it	**Range Rover Evoque** campaign showing the car next to Brooklyn Bridge in NYC to enhance its part of the 'global village' status appeal
Expressing patriotism and nostalgia for original Russian achievements, heritage and brands	**Sunflower seeds** campaign that uses a Communist pioneer as key visual to resonate with feelings of nostalgia
Compensation for the hardship of Soviet times and wish to be well taken care of	**Aeroflot** campaign that uses a large hand to symbolize that the passenger is in best hands and are treated with great care
Expression of individual 'me' as unique, conspicuous and brand conscious	**BMW 1 Series** campaign shows that different colors express different individual perspectives
Wish for power, dominance, masculinity & original quality to master a rugged environment	**Audi Quattro** campaign that highlights a car mastering the rough territories all across Russia

Fig. 8.25 Cultural values and influences and their impact on key consumption motifs and advertising themes in Russia. *Source*: globeone research (2014)

Fig. 8.26 Range Rover campaign in Russia boldly emphasizing the foreign appeal of the brand. *Source*: Jaguar Land Rover (2014)

partially limited by trade sanctions and the weak exchange rate of the Russian Ruble.

Case Study: BMW Russia—"Declaration of Superiority"

Company/Brand: BMW 7 Series
Category: Automotive/ATL and Digital
Country: Russia
Agency: Serviceplan Russia

Situation:

Competition in the Russian premium car segment is very intense and consumers pay special attention to cars, especially luxury cars. Such vehicles are much more than just a means of transportation. In Russia, first of all, a car is a status symbol that shows where someone stands on the social ladder. It also demonstrates the owner's attitude towards life. In general, due to the high

(continued)

level of affluence among Russian top earners, these consumers pay great attention to top luxury features as well as status appeal of the car. Consequently, the communication strategy and advertising needs to reflect this concern. In general, the launches of top luxury products are always of special importance for the manufacturers because the image of the top models also supports other more affordable models.

Strategy:

High advertising production costs and tight timing often do not allow designing campaigns that are especially for the Russian market. However, the ads still need to communicate values that correspond to the local psychology and market environment. Advertising in the Russian premium market generally has to be loud, direct and feature many symbols of prestige, superiority, dominance and ultimate driving convenience.

Campaign description:

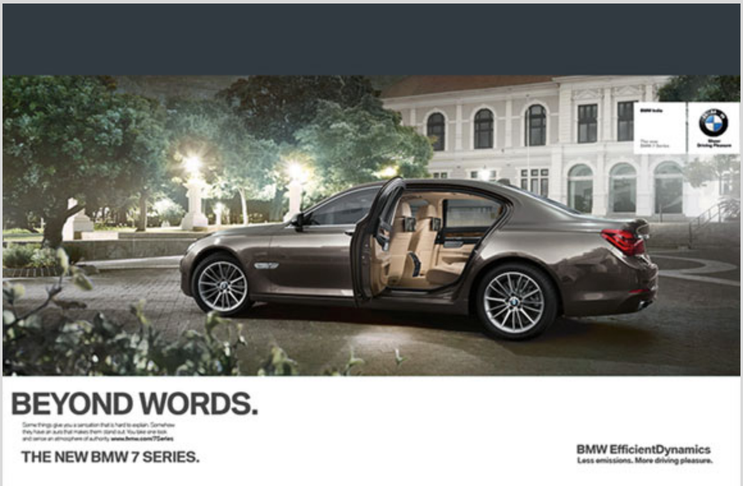
The advertising idea for BMW 7 Series was developed as a kind of manifesto. The first stage of the campaign contained a ‘Declaration of Superiority’ (following figure) based on the BMW 7 Series principles: “It doesn’t need to be bright to attract attention. It doesn’t need to be loud to be heard. It doesn’t need too many words to say it all”.

The task for the next stage was then to connect with local Russian mentality including the insight that premium cars should be luxurious not only from the outside, but also from the inside. As can be seen in the following figure, some of the ads featured the comfortable interior of the car with slogans communicating the luxury.

Results (during approx. 2 years):

The selective adjustments of advertising to Russian needs based on a strong global brand promise delivered tangible results. BMW has significantly strengthened its brand perception which is also reflected in sales: 2012 was the first year that BMW topped Mercedes-Benz in sales. In 2012 the growth rate for BMW was 33 % while the overall automotive market grew for only 11 %.

(continued)



Phase one of the launch campaign for the BMW 7 series highlights the foreign prestige factor with the claim "Declaration of Superiority". *Source*: BMW Group/Serviceplan Russia (2012)

The next stage of BMW's "Declaration of Superiority" highlights the luxurious interior of the car as "the best place to divide distance by time". *Source*: BMW Group/Serviceplan Russia (2012)

8.6 Rising Individualism and More Emotional Approaches

The rapid transformation of society and the economy in emerging markets has had direct effects on the personalities of consumers. Data suggests that the level of individualism—that is, the perception of oneself as an individual entity who has distinct opinions and makes its own decisions—varies from country to country. A 2012 analysis published in China Daily showed the "individualism score" associated with China (20 %) and India (48 %) ranked relatively low, while—as expected—the United States (91 %) and the United Kingdom (89 %) led the ranking. The findings shown in Fig. 8.27 are also consistent with the results shown in Schwartz's value model that were introduced earlier in this chapter. Schwartz found that the U.S. and U.K. scored comparatively high in "mastery" as well as "intellectual autonomy" and "affective autonomy."

However, times are also changing. There is a strong emotional factor that marketers of foreign brands should not forget. It is the wish of many BRIC consumers to catch up after many years lost under strict communist (China, Russia), socialist (India), or dictatorial (Brazil) rule. For many people in the BRICs, driving a car, traveling to other countries or owning a flat were distant dreams until the 1980s and 1990s. Today, the ownership of big-ticket items has become normal for many urban, upper-class citizens across the BRICs.

As consumers in China, India, Brazil and Russia move up in terms of disposable income, they become more aspirational, independent and individualistic. It is true that they are starting from a substantially lower basis, and it will still be a long journey to match the high levels of individualism seen in the West; however, the trend is clear. In China, there is a whole generation of "little emperors" who were raised free from the hangovers of the Cultural Revolution. Economic progress,

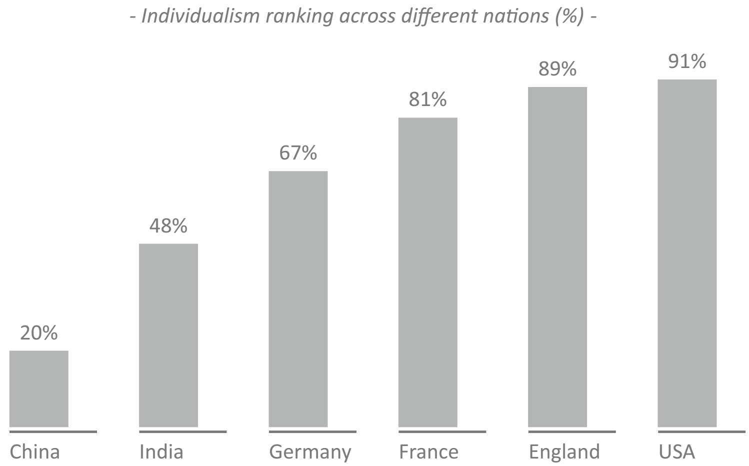


Fig. 8.27 Differences in the level of individualism present in China and India versus selected fully industrialized economies. *Source*: China Daily (2012)

Fig. 8.28 Growing individual needs: brands as tools that show individual status and style (2009 versus 2011, in percent). *Source*: Harvard Business Review (2012)

social media, exposure to foreign ideas as well as advertising and traveling have instilled rising self-confidence in these young people, who in many cases feel more solidarity with their friends than with their conservative families. There is growing assimilation of individual values as well as traditional values. As a result, there is increasing social pressure and an ever-stronger desire to experience exciting things and explore the world as members of the "global village."

A 2011 survey reported in the Harvard Business Review confirms this trend for China and demonstrates steady growth in individual needs. According to the survey shown in Fig. 8.28, 24 % of urban Chinese agree that a "brand should reflect the user and his status" (up from 19 % in 2009).

Further McKinsey surveys on special industries, such as premium cars, confirm these findings. Here, 30 % of surveyed Chinese car buyers agreed that the primary reason for buying a premium car is the "reflection of social status" (e.g., Sha et al. 2013). In a 2012 survey, it was argued that "by 2020 a product's ability to reflect the user's individuality will strongly affect the buying decisions of Chinese consumers" (Atsmon et al. 2012). The paper also finds evidence of what people familiar with China have long noticed: an ongoing collision between old and new values. According to globeone data shown in Fig. 8.29, this collision of values is a common phenomenon—not only in China but across all the BRIC nations. For example, India is most severely affected by the clash of values, with 83 % of urban Indian citizens agreeing that modernization is in conflict with traditional values (globeone 2011). China and Russia follow, with 77 % and 66 % respectively.

More individuality and personal freedom comes at the cost of others and frequently results in crises in morals, families, marriages or even motherhood. Brands that help to moderate these tensions or offer solutions to bridge the gap are likely to enjoy an edge in the market.

Marketing scientists and practitioners have long been aware that one major way to achieve successful brand differentiation is to associate emotional benefits with the brand identity in ways that reflect the self-image of the target group. Brands, like human beings, have an identity that consists of personality traits, values and a vision, as well as competences and origins (e.g., Aaker 1997). The emotional personality traits must then be integrated with the functional benefits identified with the brand. This is especially critical in industries where the potential for

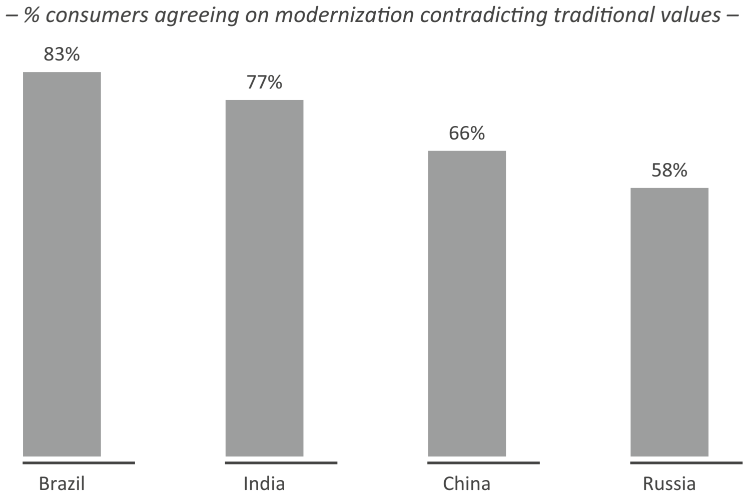


Fig. 8.29 Rising focus on individual self-fulfillment creates increasing contradictions with the traditional, more collectivist value systems. Source: globeone BRIC Branding Survey (2011)

functional differentiation is low (e.g., financial services or breakfast cereals) or where there is intensive price competition. As their income level and sophistication rises, BRIC consumers are increasingly looking for emotional benefits and a reflection of their own values when they purchase products. This trend demands attention, because there is increasing academic proof of the relationship between a consumer's personality—defined as an individual's particular combination of emotional, attitudinal and behavioral response patterns—and brand preferences (Mulyagenara and Tsarenko 2005).

The "Global Consumer Trends" research project by the International Markets Bureau of Canada in 2010 also dealt with individualism in developing and developed countries. In Latin America and Asian countries the bureau found that "younger generations are growing up under increasingly secure conditions and, as a result, tend to embrace individualistic values to a greater degree than their older counterparts." The paper distinguishes between "me first," "only me" and "just for me" consumer segments.

The "me first" consumers display a sense of entitlement and easily reject official messages. These consumers are increasingly self-confident and are fueling a more demanding market. For this segment, brand marketers need to present clear and simple messages and convey trust and individuality, which is critical because these consumers are very willing to try new things.

"Only me" consumers live in single-person households, mostly in urban centers. Their numbers are growing most rapidly in emerging economies, thanks to urbanization, later marriages and changing perceptions of family responsibilities. They need products and brands that cater to their convenience and are packaged in smaller portions. Regular-sized items that are divided into individually wrapped units are very popular with them.

"Just for me" consumers are individualists who know exactly what they want. Products need to be designed and packaged with their specific needs in mind. Strategies that incorporate consumer-generated content from this group can be highly successful. Brands, in this case, should ask these consumers to submit input and keep in mind that customization is critical. Strategies like Burger King's "Whopper Bar" concept, where customers can chose among 22 different toppings and sauces, can be very popular.

In countries like China and India, individualization happens within a tight societal framework. Tom Doctoroff, author of the book What Chinese Want, sees Chinese consumers as "driven by an ever-present conflict between standing out and fitting in." But still, Chinese people score generally low on the individualism scale compared to other countries. However there is a significant trend towards individualization within a socially accepted framework in higher-income segments. The number of consumers who look for products that show their individual style is growing quickly. Products that manage to reflect individuality in this consumer segment will have a strong influence on buying decisions in China (Doctoroff 2013).

In the past 5 years, especially women have become a driving factor behind growth in the middle class in China but remain poorly understood as a major influence on household budgets. Not only are they exerting much influence on decision-making in their own family households but they are also deciding for their parents that often live in the same flat or nearby in the neighborhood. The founder of the people's Republic of China, Chairman Mao Zedong, once famously said that "Women are holding up half of the sky" implying that woman are an equally integral part of the communist society and workforce. Nowadays, women are contributing to about half of Chinese household incomes, up from only 20 % in the 1950s. Since the formation of the People's Republic in 1949 women have enjoyed massive growth in education opportunities and many have entered the white-collar workforce. In addition, women have gained a major say in the final decisions about most big tickets items. Men might make the final decision but it has been recognized that women usually have an equal say. Many Chinese men report that their spouses need to approve all purchases regarding the way the home looks as well purchases that are above a certain price level. In addition, Shanghai women are known for taking full control of the family's finances. They often keep the bank accounts in their own names and give their husbands a weekly allowance. A survey found that in China, 52 % of the women control the finance in a family, 44.5 % of them negotiate with other family members and only 4 % do not have any control (Marketingtochina 2012).

Chinese women are very confident, increasingly self-sufficient and they are much younger than the global average. Eighty percent of wealthy women in China are under the age of 45 compared to 30 % in the United States and 19 % in Japan. Consequently, to get their attention, brands need to speak to a young, successful female audience. Think ages 18–25. Ambitious. Smart. To be successful in selling to them, it is necessary to reflect their emotions and individual concerns more than ever before, even when selling products that men traditionally buy. As Chinese women work hard, raise children, and pay for their parents, they want to spoil themselves and relax a little. The thing most of them enjoy most is going shopping together with their female friends rather than alone (McKinsey 2010; Corsi 2011). In addition, Chinese women are putting more effort into their beauty routine than Western women. For them, it is increasingly important to be attractive. According to a study conducted by TNS in Asia Pacific, 59 % of Asian women feel it is important to put effort into looking good before leaving home in the morning compared to 39 % of their U.S. sisters (Davey and Walton 2010). Different from the older generation of women, today's Chinese women are quite independent mentally and highly self-centered. This is also reflected in consumption: Among ladies between 20 and 30 years of age, 56 % will spend their money first on clothing, perfume and cosmetics and only 6 % of them will consider family (Marketingtochina 2012). Chinese women also have a special sense of beauty. Traditionally, white and smooth skin is the main symbol of beauty. However, with the increasing obesity problems, keeping a slender body shape is becoming more and more important for Chinese females. Combining the aspects described above like spending power for apparel, an increased self-focus and the concern about a slim and attractive appearance sets the basis for a perfect marketing success case. The following Adidas case study reveals how to successfully cater to the new Chinese women.

Case Study: Adidas China Women's Marketing Campaign

Company/Brand: adidas
Category: Sportswear/footwear
Country: China

Situation Analysis:

For adidas, a leading sports brand in China, one of the challenges it faced was that Chinese women were alienated by the primarily masculine image from sports brands. Research showed that Chinese female consumers were losing affinity with the sporting goods industry. As much of sports advertising and communication was driven vertically through key categories such as basketball, football and running, women didn't feel a proper connection with a sports brand.

In 2013, adidas launched its first-ever local campaign targeting Chinese women. The campaign's mission was to inspire Chinese girls to develop a passion for exercise and sport, and of course, to turn to adidas for all of their sports apparel and footwear needs.

Strategy:

Through qualitative and quantitative research, adidas uncovered the insight that for Chinese girls, sport is about "having best times doing what I

(continued)

love with the people I love." For these girls, sport is primarily about social bonding. Girls believe they can gain happiness and build friendships through sports. Tapping into the importance of friendship, adidas created the "all in for #mygirls" campaign. Furthermore, Chinese girls shopped for sporting goods in a cross-category manner so the campaign would provide this added product dimension.

Campaign description:

The campaign aimed to show the fun and bonding that girls can have when they come together to do sports, as well as the "coolness" of doing sports. The campaign focused on the following messages—sisterhood, benefits of doing sport and a range of different sports.

For the campaign's TVC, adidas selected three groups of girls that represented the three types of sports that appeal and inspire the female consumer audience: dancing, running, and parkour. The company also signed Hebe, a popular singer and actress, to serve as a brand ambassador and appear in the TVC. Hebe, with her passion for sports and dancing, was an ambassador that would resonate very well with the target audience.

In the 30-s and 60-s spots (see the following figure), consumers can see these "sisters" having fun, being social, and hanging out. The spot shows that fun and bonding happens when girls come together to do sports. The TVC ends with Hebe speaking into the camera, asking girls all over China: "These are my sisters, what about yours?" The end frame then appears, showing our campaign slogan of "all in for #mygirls".

The adidas Women's campaign officially launched on March 1, 2013. In addition to advertising, the integrated campaign included PR, digital, retail and sports marketing. Highlights of the campaign included the following:

- Kickoff events for 81 media (100 editors) showcasing 60 mix-and-match outfits from training, running, outdoor, tennis. Hebe, the new ambassador of the women's category attended along with girls from different sisterhoods.
- adidasgirls.com.cn—a website that serves as the hub of the Women's campaign—invited girls to submit photos, send virtual gifts to their "sisters," and share stories about their "sisterhoods."
- @adidasgirls weibo—a central Weibo account that created only for women's categories, interacts with fans across China—campaign yielded an additional 51,695 followers.
- Consumer activation was executed at retail with "sisterhood photo booths". Consumers could visit adidas stores with their "sisters" and take photos with preset sports background.

(continued)

- Gym roll-out—New workout programs ("Dance & Training Formula 3"; "Running Program") touched 100,000+/traffic target consumers and special product trial and sales promotions
- Nationwide campus workshop, educated 320 PE teachers & reached over 40,000 students

Results:

- As a result of the campaign period, adidas saw a 40 % total growth in its women's business.
- According to post-campaign research, there was a 3.45 % increase in sports participation among women (esp. gym participation, jogging, swimming, bicycling, basketball and badminton) and sentiment analysis on Weibo showed many consumers who said that "adidas and Hebe inspired me to do sport".
- Brand research showed that there was an increase in brand awareness, brand consideration and brand salience as a result of the campaign.

The 2013 adidas Women's campaign was recognized with the prestigious Gold Effie Award. Launched in 1968, the Effie Awards is one of the leading industry awards that recognize the most effective marketing communication ideas and campaigns. The follow-up 2014 adidas Women's campaign was also recognized with a Silver Effie Award.

Brand ambassador Hebe and her sporty "sisters" in a campaign visual of Adidas' first local campaign targeting Chinese women. *Source*: Adidas (2014)

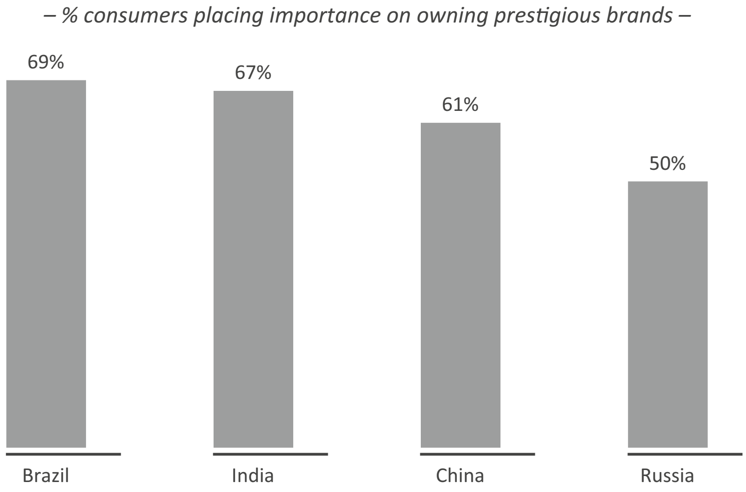


Fig. 8.30 Percentage of urban consumers across the BRICs who are placing major importance on owning prestigious brands. globeone BRIC Branding Survey (2011)

One of the consequences of this shift in consumer personality is a significant trend towards trading up. As conspicuous consumption gains traction, more and more shoppers want to buy better versions of the same product next time.

globeone's BRIC Branding Survey yielded the result that, across the BRIC population, there is a strong desire to own (foreign) prestige brands. For example, 69 % of Indians in the five largest cities, across all income brackets, consider it important to own prestige brands; this is followed by China (67 %) and Brazil (61 %). The following Fig. 8.30 shows these results.

According to The Times of India, over 80 % of Indian consumers are trading up on at least one major purchase decision per year. The same is true for about three-quarters of Chinese consumers. These numbers are much higher than in the West. Not only are emerging-market consumers willing to experiment more with brands, they are also blessed with rapidly rising income, which is boosting their budget for conspicuous purchases. Marketers need to be ready for this by increasing their rate of innovation, broadening their portfolios and tailoring their products in a scientific manner.

A quick look at the most important reasons given for trading up reveals big opportunities for Western brands. In India and China, the better brand name itself seems to be the number-one reason for trading up, ahead of other reasons like technical differences, healthier products or affordability. The most popular product categories in which consumers trade up seem to be electronics, apparel and home décor.

But there is yet another important shift taking place that needs our attention. Consumers who trade up are becoming more sophisticated with their research and buying decisions and are less attracted over time by mere status symbols. They tend

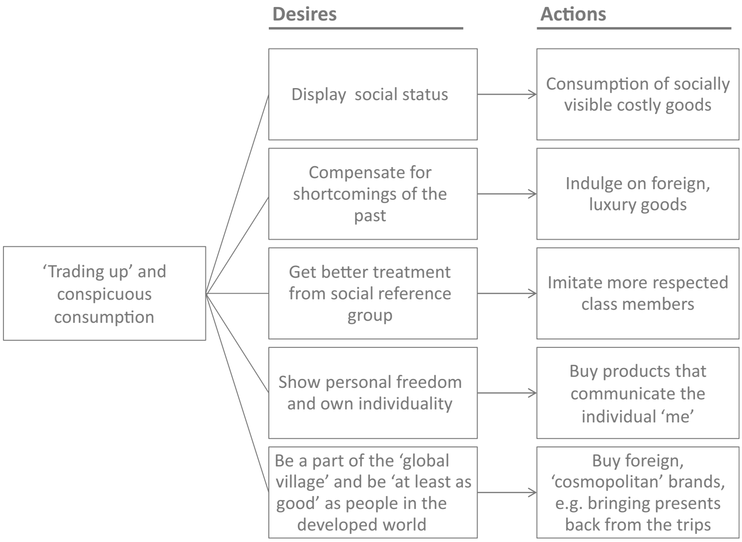


Fig. 8.31 Emotional functions of "trading up" and conspicuous consumption. globeone research (2014)

to become more interested in getting value for their money in the form of emotional benefits. Functionality and a big name alone does not do it any more for the trading-up crowd. A growing sense of the self and emphasis on self-expression are fueling a rise in emotional considerations. The perfect shoes not only make you look fashionable, they also make you feel special. The wish is no longer to buy a popular good car but to find "my car," the one that perfectly fits the individual like a close companion. In times of rapid economic development, people start to use brands more to communicate their personality and individual style, to show that they are part of a certain group, or to differentiate themselves from people in other groups. This can be a powerful driver for purchase decisions, and foreign brands, as in many other cases, enjoy an edge in catering to these emotional needs. The following Fig. 8.31 shows different manifestations of desires and related actions that can be frequently observed in emerging markets where many consumers are constantly trading up.

Nowadays, there are many campaign examples that show the importance of highlighting emotional aspects and the individual self instead of mere product features. Audi features campaign examples that stage the car in a very free and relaxing 'holiday by the sea' setting where the people can just focus on their own wellbeing (Fig. 8.32). Mercedes-Benz highlights a similarly emotional approach that puts the human being and nature in the very center of the ad without even showing a vehicle or it features interesting individuals like artists or a young DJ who are sharing their personal story about how they want to fulfill their dreams.

Helen Wang, the author of 'The Chinese Dream' has identified five new segments and trends among Chinese consumers (Wang 2010, 2012). Two of them

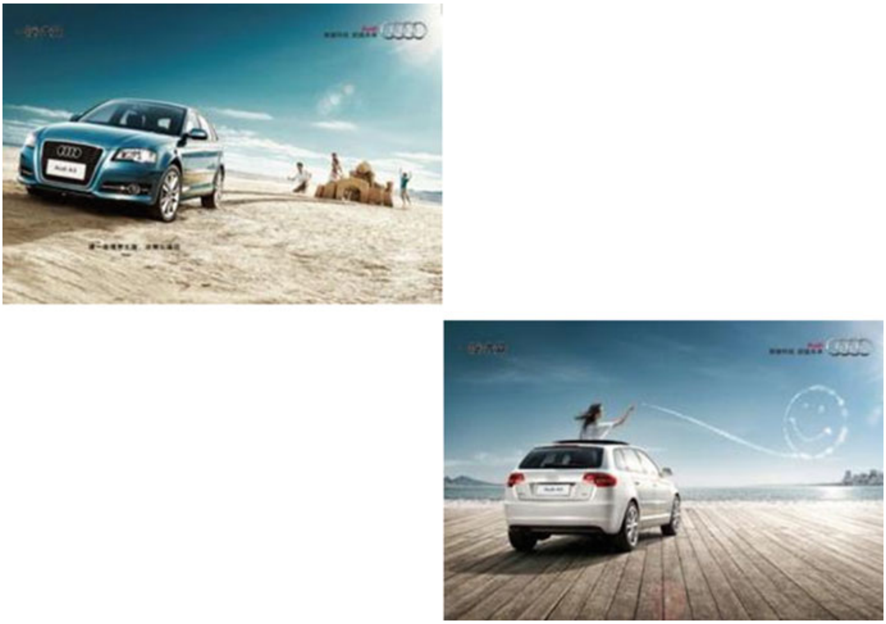


Fig. 8.32 Campaign that highlights emotional aspects and the individual self instead of product features. *Source*: Audi China (2014)

plainly exemplify the rise of emotional needs. One is what Wang calls "sophisticated high earners." These affluent shoppers, who were initially attracted by big logos and functional benefits, are gradually adopting spending behaviors more like those in Europe or the U.S. They increasingly want to display their unique taste. Durability, good quality and functionality are still very important. But attractive designs and fine things for personal indulgence have become a higher priority. Figure 8.33 provides some anecdotal evidence about this rising sophistication among Chinese luxury consumers.

Wang identifies the "self-indulging youths" as another critical new segment among Chinese consumers. This group of consumers is increasingly motivated to buy products for their own enjoyment. And they depend much more than older generations on the Internet and social media to help them make purchasing decisions. These young 'digital natives' want to fulfill their dreams, something their parents and grandparents could not afford to do. Marketers need to understand that the competitive advantage of a brand is based not only on what you see—like product and price—but increasingly on the emotional benefits that are offered (Wang 2010, 2012).

Some international premium brands are increasingly banking on this theme of individual character and personal style. BMW's 1 Series launch campaign in China and Russia is a good example. The recent campaign for BMW's entry model centered on the theme "hot versus cool" or "night versus day." In this interactive

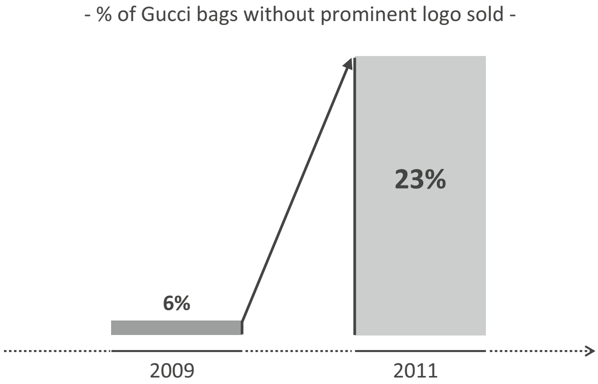


Fig. 8.33 Signs of rising sophistication: percentage of Gucci bags that were sold in China without prominent logo. *Source*: Week in China (2012)

campaign, the personal psychological characteristics of the target group were matched with different colors and configurations of the car. For example, the red “Sport Line” was suggested to dynamic people with hot tempers, while the blue “Urban Line” was more for cool and relaxed characters. In this campaign, the cars were clearly positioned as an expression of the individual self—an idea that resonated very well with sportive, fun-loving and fashionable young people who belong to Wang’s “self-indulging youths.” This is just one of many examples of how to turn the trend towards individualization and emotion into profitable business.

8.7 Using the Power of Local Beliefs, Myths and Tastes

If you want to build a successful new brand in an emerging market, you not only need to understand the local culture well. In many cases you need to be part of it in the best possible way, and to try to blend your marketing efforts into it. No matter whether you use Chinese philosophy, Hindu mythology, Brazilian folk tales or Russian nostalgia: They are rich sources of analogies and ways to link the brand to prevalent symbols, beliefs, tastes and myths in these countries.

One of the best-known concepts in Chinese philosophy is “yin and yang,” two seemingly contrary forces that are interconnected in the natural world. They reflect natural dualities like male and female, hot and cold, or water and fire, as well as life and death. The concept of yin and yang not only permeates traditional Chinese medicine, it can also be found in martial arts and in countless recipes for popular foods. Yin and yang are complementary forces, which together form a whole that is greater than the separate parts. Confucianism even attaches moral dimensions to this ancient concept.

India is a real treasure trove of traditional narratives, like the Hindu epics, the Puranas or the Itihasa. These epics are a rich source of philosophy and morality. In some of them Lord Krishna, the incarnation of the supreme god Vishnu, is described as a young boy playing a flute, or as a prince who gives guidance. He is often portrayed as a god-child or a divine hero. For centuries, Krishna has been a favorite subject in performing arts and regional traditions.

Brazilian mythology and folklore offer a large variety of creatures and characters. They are often a blend of local myths and folk tales that entered the country through a series of migrational waves. Among them is "Mapinguari," a legendary creature with red fur living in the rainforests of the Amazon basin. The Mapinguari, according to some folklore, has only one eye, long claws, backward feet and a second mouth on its belly.

Western companies and brands have, in many cases, made ingenious use of local beliefs and myths in the BRICs. One example is Volkswagen in India. For some time, the carmaker ran an ad using a reincarnation theme, which is central to Hinduism. It shows how an old VW Polo is loved and taken care of by a man, as the man grows older and older, he still takes great care of the car. Then, after many years of treating the car as a treasure, the old man dies while his daugher is pregnant. The daughter and her husband then buy a new Polo, and they soon discover that the little grandson also cares a great deal about the Polo and shows behavior similar to that of the grandfather who died. The implication is that the grandfather must have been reincarnated in the grandson and his love for the Polo is a characteristic that was passed on. The whole TV commercial is nicely summarized in the closing slogan that claims "The new Polo—so good that you will come back for it."

In another example, Starbucks skillfully used the Chinese almanac to draw additional sales. The Seattle-based coffee chain wanted to foster a deeper connection with Chinese consumers. It designed its own 30-day calendar around the time of the annual spring festival in February, which has many auspicious dates for weddings, travel and other important events. One day on the calendar was declared a good day to visit relatives, another was deemed to be lucky for a blind date. The calendar was then distributed on social media platforms, and the different dates were linked to Starbucks special offers in physical stores. On one day, consumers were asked to hug their parents at a store in order to be eligible for a three-for-two deal. On other days, free beverages and reward cards were offered. With a relatively small investment, Starbucks turned its "Daily Goodness" campaign into a wild success. According to Campaign Asia-Pacific the campaign generated more than 100 million impressions on Sina Weibo. The campaign also generated 10 times more sales as compared to a regular period promotion, according to company sources.

Another example in China involves Lay's potato chips, which offers a range of special flavors in the country, some of which play on the yin and yang concept. Among the different flavors that contribute to the notion of natural balance in the sense of hot and cool are "cool cucumber" and "lemon." While these tastes would probably flop in Western markets, they are extremely popular during the hot summers in Beijing and Shanghai because Chinese traditional medicine suggests that cucumber and lemon reduce excess body heat and should therefore be consumed when it is very hot. Conversely, traditional potato chips that are salty and fatty are believed to add body heat and therefore regularly suffer from sluggish sales during the summer. Besides the concept of yin and yang, there is a plethora of beliefs and habits related to certain foods and ingredients. For example, ginger is believed to have healing properties and is therefore very popular in drinks, teas and shampoos, while jasmine is seen as the ultimate cure for bad breath and is therefore popular as an ingredient in toothpaste, mouthwash and flavored drinks.

Johnnie Walker, the best-known Diageo brand in Brazil, also offers a case worth studying. When Diageo launched a new campaign in late 2011, it tapped into a widespread sense of awakening, of opportunity and growth in a country that perceives itself as a "green giant," finally standing up and making an increasing global mark. The company created a popular video using a unique reference to Brazil, in which Rio's Sugarloaf Mountain suddenly develops huge cracks and comes alive as a stone giant; it wakes up and walks out into the sea, symbolizing the global sphere. "It was as if Brazil itself was awakening and filled with momentum," explained Diageo's Latin America marketing director, Olga Martinez, around the time of the launch. The video also uses Brazil's national anthem, which contains the lines "O country vast by nature, fair and strong, brave and colossus, thy future mirrors this thy greatness." The video ends with an image of the rock colossus framed by the message "The giant is no more asleep." Interestingly, this was the first time Johnnie Walker developed a local campaign specifically for Brazil.

The full exploitation of local tastes, habits and preferences also requires deeply rooted research and development at the local level. Therefore, India, the most culturally diverse and complex market in the BRICs, is shaping up as a new source of localized innovation with worldwide effects as well. In an interview with Forbes magazine in India L'Oréal India's Managing Director Jacques Challes announced that the cosmetics company was building a new R&D center in Mumbai. It is the company's third in Asia, after Japan and China, and the sixth globally. Challes' comment on the new R&D center's relevance for the company was frank and clear: "Though it's a worldwide role, the future for L'Oréal lies in markets like India, Brazil and China. So in terms of ideas and innovation, these will come out of these countries and this will be instrumental for the whole company" (Forbes India 2012).

In other words, the next phase in the rebalancing of the global economy has begun. First, India and China set new benchmarks for costs, then the emerging world took over manufacturing. The current phase is witnessing a strengthening of local R&D in the emerging world, with far-reaching consequences for businesses worldwide.

One of the latest examples that stand for this trend stems again from China where Mercedes-Benz has just opened an 'Advanced Design Center' after closing its Japanese development center. "If you talk about the future of automotive, you are also talking about China", explained Daimler Research Head Thomas Weber. The 13.5 million Euro investment in the Beijing based center follows the general trend that preferences of Chinese consumers will also impact global trends in the years to

Fig. 8.34 Mercedes-Benz "Vision G-Code" concept car developed especially to meet the specific taste of affluent Chinese citizens. *Source*: Daimler (2014)

come. Besides the adjustment of infotainment and driver assistance systems, the development center also explores the vehicle design of the future as well as Chinese consumer's unique preferences. For example, the popular S-Class will finally also be built in an extended 'long version', similar to the long versions of BMW's 7, 5 and 3 Series. Olivier Boulay, responsible for Mercedes-Benz Design in Asia, explains: "It was our luck that Chinese strongly prefer European and especially German cars." However, this may change in the future.

Simultaneously with the opening of the center, Mercedes launched it's first China show car, an SUV-coupe crossover called G-Code. The car that is displayed in Fig. 8.34 features a number of China-adjustments designed to meet the specific tastes of the local target groups. Besides traditional Chinese architecture, fashion and calligraphy, the design is also influenced by the specific tastes of the modern consumers. For example, Chinese prefer an expressive and dominant design style to communicate their individual social progress. As an additional dazzling show-off feature, the radiator grill can change its color (Grünweg 2014).

The combination of SUV and coupe is also a smart mix. The coupe elements satisfy the young target group's wish for dynamic driving and experience. However, as family plays an important role, the seats in the back are mandatory to transport kids and parents and the SUV elements signal the freedom and flexibility to drive wherever the owner wants to go.

Inside of the car, you can find what Mercedes calls 'analog luxury'. The car comes with napkin dispensers, multiple charging plug sockets for mobile phones, a place for talismans as well as super-size cup-holders that can hold the bigger

Fig. 8.35 Interior design of the Mercedes-Benz "Vision G-Code" concept. *Source*: Daimler (2014)

Chinese thermos tea jugs. Infotainment systems and massage seats help to relax the passengers in the frequent traffic jams. Finally, very useful during times of heavy air pollution: the car comes with an integrated air freshener and at a push of a button pure oxygen flows inside the cabin. Figure 8.35 gives an impression about the interior design of the concept car.

But it is not just Mercedes-Benz that is beefing up local design and development capabilities. Almost all major automotive manufacturers have started to invest in local R&D capacities in China in order to successfully cater to the hottest car market in the world. Most recently, BMW China launched it's "Horse Edition" in the 3 Series—just in time for the Chinese New Year of the horse in 2014. Figure 8.36 shows an advertisement for this special edition.

These examples show that it will not take long until the new markets drive new global tastes, flavors and products that will impact trends and fashion in the rest of the world. Companies that want to stay ahead need to make sure they are a part of this development and conduct research & development locally in order to fully leverage local beliefs, myths and tastes.

As culture and language are closely interconnected, a final note should be made regarding the importance of local languages. Corporate names and their potential translations in a local language are an issue that needs serious consideration when the extent of a local adjustment is discussed. Names ring bells, in the East as well as in the West. In Chinese culture, names are a very serious business. Before the Cultural Revolution in China it was a widespread custom to use style names and nicknames in addition to given names. People can deduce a person's beliefs and pursuits from the style he or she has chosen. The same is true for a brand name. In the eyes of Chinese customers, it is an embodiment of the culture and values behind

Fig. 8.36 Adapting products to market specifics—BMW 3 series "Year of the Horse" special edition. *Source*: BMW China (2014)

the advertised product. But this is not the only reason why the translation of a name in China can be extremely complicated. Each of the roughly 50,000 Chinese characters has a meaning, and their pronunciation can vary with hundreds of dialects. The most common solution is a "phono-semantic" translation, which involves finding a local name that sounds similar to the Western brand name, but which has a positive meaning that corresponds with the product or category. Any confusion with other brand names must be avoided, so there are many potential traps for unwary marketers and brand managers. When U.S. pharmaceutical giant Pfizer checked the availability of Chinese names for its global juggernaut Viagra, the best possible Chinese translation was already patented by a competitor. Another version, "wanaike," was considered, but the name could be translated literally into "the guest who makes love 10,000 times." This was a translation that many Chinese deemed indecent. Some German companies have been credited by experts with felicitous solutions to the challenge of finding a proper local name. Siemens' *Xi-men-zi* means "Gate to the West." BMW's *Bao-ma* translates as "precious horse." Mercedes-Benz's *Ben-chi* means "galloping fast."

8.8 Brand Origin and Perceived Foreignness Matter

Most consumers in the BRICs agree that there are strong foreign influences, which are further fueled by the internet and social media. Brazilians show the strongest agreement with this assessment, at a 96 % approval rate. 90 % of India's consumers

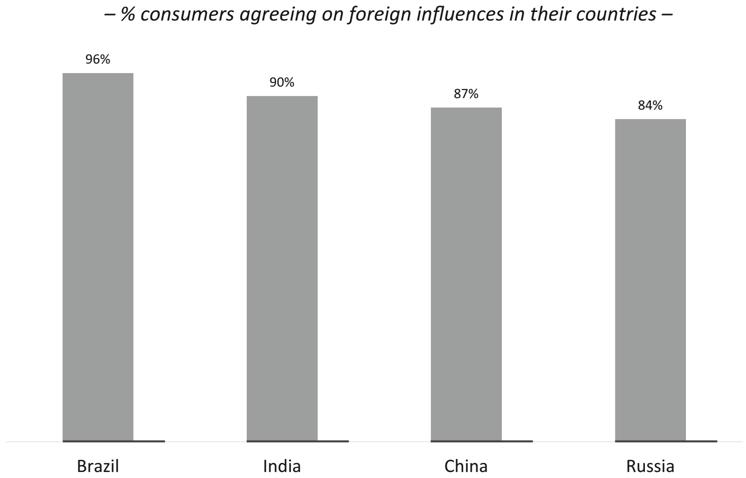


Fig. 8.37 Most consumers across the BRICs perceive a high level of foreign influence in their respective country. *Source*: globeone BRIC Branding Survey (2011)

agree, and 87 % do so in China. Figure 8.37 shows the comparison of this perception across the BRICs. These foreign influences are perceived at an individual level (e.g., exposure of the individual to a certain new trend) as well as at a national level (e.g., perception that the country overall is more exposed to international competition). From the consumers' point of view, foreign influences come in many different forms—new trends and ideas, foreign movies or commercials, tourists from overseas or simply new chain stores and brands.

The opening up of a country through the lowering of bilateral trade barriers or accession to the World Trade Organization (WTO) leads to an increased availability of international brands. For the consumer, the non-local origin is usually identifiable through an indication about the country of origin (COO), or sometimes more specifically the country of manufacture (COM) or in some cases the country of design (COD). Overall, the country of origin has been defined as 'the country where the corporate headquarters marketing the product or brand are located; it does not require local manufacturing' (Amine et al. 2005). The country of manufacture designation clearly indicates where a product has been manufactured or assembled, while country of design refers to the country where the brand is conceived (or more generally the country the brand itself is associated with). Figure 8.38 gives an illustration of these concepts and Fig. 8.39 shows the purchase relevance of country-of-origin in a BRICs comparison.

It is a proven fact that the COO plays an important role in the formation of brand preferences and purchase intentions. In our survey of over 4000 urban consumers across the BRICs, we found that the importance of COO was even higher than expected. 90 % of urban Russians indicated that they pay attention to the country of origin when they are buying a product. For India, 69 % indicated a high COO

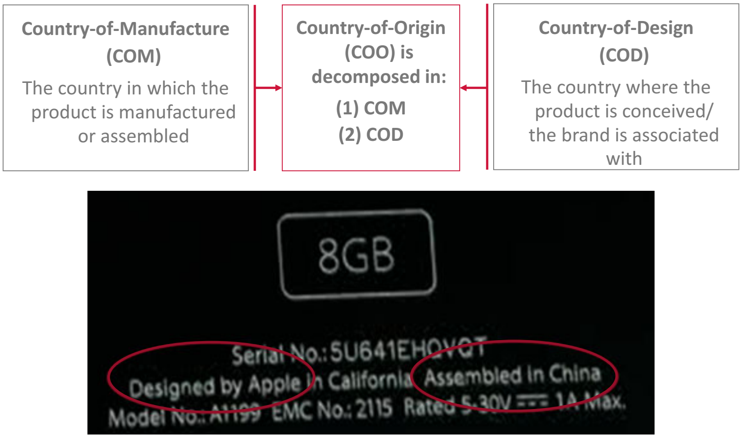


Fig. 8.38 The country-of-origin (COO) construct is commonly decomposed into country-of-manufacture (COM) and country-of-design (COD). *Source*: globeone (2014)

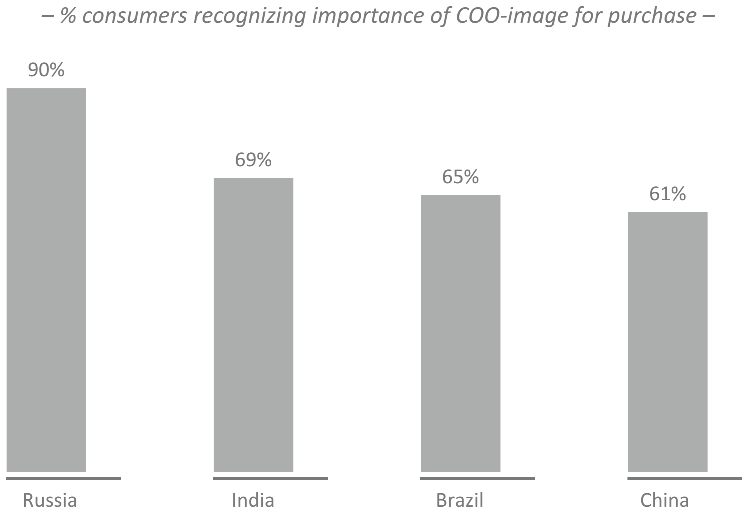


Fig. 8.39 The COO-image is of key importance for purchase decisions in all BRIC markets. *Source:* globeone BRIC Branding Survey (2011)

importance while Brazil and China scored 65 % and 61 % respectively. Thus making origin a deciding factor!

As early as the late 1970s, research has shown that consumers intuitively associate positive or negative attributes with a product, company or brand if they recognize its country-of-origin. In scientific terms, what happens is an image transfer of associations from the country to the brand. Consequently, the country-of-origin effect still plays a significant role in marketing today and results in a type of "subliminal DNA" for brands. Considering the high percentages of BRIC consumers saying that COO matters to them, there are some good arguments why COO is generally relevant. For example, a favorable COO has been recognized to enhance the perceived quality of a brand. There is also significant evidence that a relevant COO (e.g., France for perfume, Italy for designer clothing or Germany for premium cars) will enhance the prestige factor of a brand. In addition, these two aspects are also linked to the finding that a positive COO can also increase the overall preference as well as purchase intention in favor of a brand. While these are the general lines of argument, there are a number of reasons why COO is especially relevant in the context of successful marketing and brand building in an emerging market. The reasons for the even higher COO sensitivity are presented in the following list:

- **COO is a very powerful information cue**. While brand experience is usually still low, consumers usually have substantial knowledge about different countries (e.g., the U.S. is known for being very innovative and tech-driven). Therefore, it is efficient to use this existing knowledge and link it to the brand through COO rather than investing much time and money in communicating basic quality and other characteristics through expensive advertising.
- It is a fact that **many growth market consumers are trading up**. Naturally, they are very interested in communicating their social progress. As foreign brands are an important tool to show this social progress, the ownership of a brand from a certain country that is known for its expensive, high-prestige goods enhances the perceived sophistication of the owner even more. The underlying logic has already long been observed and artfully described in Thorstein Velben's 'Theory of the Leisure Class' (1899). It is the constant "trading up" of consumers from the lower middle class to the upper middle class that fuels the attractiveness of foreign brands across transitional economies. As they are moving up, they want their peers, neighbors and co-workers to take note of their personal success.
- As many emerging markets are slowly opening up, this also means that many foreign brands are **new to the market and available on a limited basis only**. In many cases, the initial selection of foreign brands is small and only increases over time. Therefore, brands from specific countries enjoy even better reputations thanks to their relative novelty and scarcity.
- In many emerging markets, there are still a lot of (local) goods of **very questionable quality** on the shelves. Therefore, the lower local quality as well as limited marketing competence of many local brands also helps to boost the positive perception of foreign and imported products.

A positive COO image is in many cases a key driver of brand performance. However, in emerging markets it is even more than that. In high competition countries such as China or India, a favorable COO and the related quality perception is a very valuable competitive advantage that cannot be easily imitated by local champions. Therefore, the decision about positioning as more foreign or more local in a new market is one of the most strategic decisions a company can face when considering how to position itself as well as their products.

Countries currently benefitting most from the COO image include Germany, the United States, Japan and Switzerland due to their long-standing traditions of quality, cutting-edge technology or engineering craftsmanship. Labels, such as "Designed in the USA," "Made in Germany," or "Swiss Made," are not only descriptions of origin but also valuable quality marks that convey prestige and reputation on the products that bear them.

For global marketers, this data leads to a simple but critically important conclusion: The more favorable a country's image is and the more relevant a country's associations are in a specific product category, the more prominently the "Made in . . ." label should be communicated.

The comparison of the "COO brand strength index" across five of the leading industrial nations displayed in Fig. 8.40 shows the countries that enjoy the highest competence and reputation perception by consumers in the BRICs. The ranking is calculated based on the evaluations of over 4000 urban consumers in the twenty biggest cities in Brazil, India, China and Russia across 15 important brand performance dimensions. With an average score of 40 %, Germany ranks highest in general COO preference followed by Japan (38 %), the United States (33 %) and France (20 %). Most interesting is the finding that China, with an index score of 17 %, already ranks No. 5 in the survey and is closing in on France. This confirms China's rapid economic development in recent years (globeone 2011).

For Germany, its positive image is a real asset. 66 % of the overall urban BRIC population has a positive image of German products, meaning that there are many opportunities to use COO to more effectively position products. Among BRIC consumers, Germany is most famous for cars, home appliances, machinery and

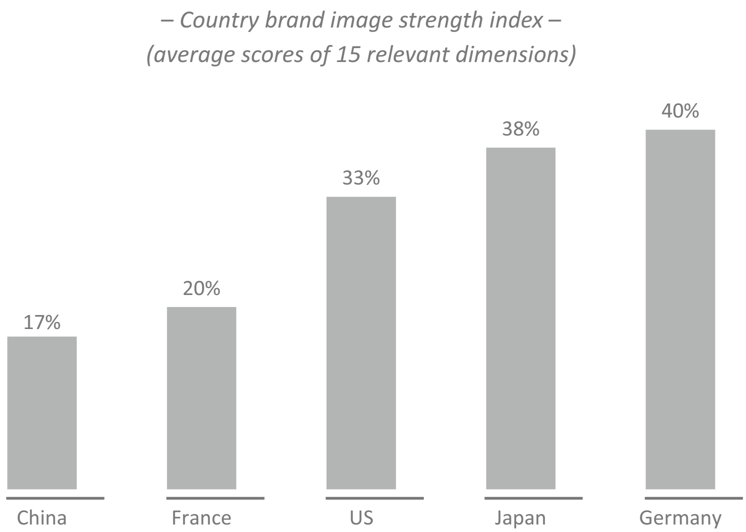


Fig. 8.40 Country image strength index based on 4033 interviews with urban citizens across the BRICs. *Source*: globeone BRIC Branding Survey (2011)

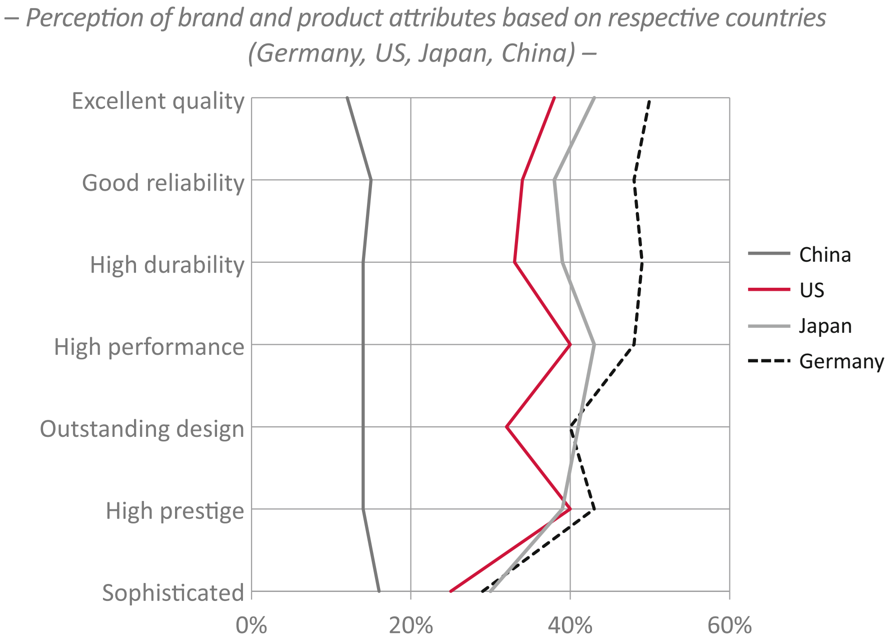


Fig. 8.41 Detailed analysis of the specific image of China versus the U.S., Japan and Germany in major performance dimensions based on 4033 interviews across the BRICs (1/2). *Source*: globeone (2011)

pharmaceuticals. At the same time, Germany is less likely to be associated with consumer goods and services.

The detailed analysis of Germany's COO image versus that of the USA, Japan and China in 15 image dimensions shown in Figs. 8.41 and 8.42 reveals the major differences in the perception of these countries in the BRICs. For example, Germany (see dotted line in the graph) scores very high in the traditional dimensions of "Made in Germany" such as high quality, reliability, durability or trustworthiness. However, it is also clear that brands from Japan and the USA enjoy a clear perception advantage when it comes to more modern values such as "innovation", "high-tech" or "excitement". While in many cases it makes a great deal of sense to use and actively promote the COO, there are also cases when it does not. Take for example, the comparatively low performance of Germany for the dimension "fashionable & exciting." Thus a German brand that is active in trendy clothing should carefully consider if and how far to integrate the German COO into its brand identity. Maybe this is also a reason why Germany's Adidas and Puma position themselves as real global brands rather than German champions.

A few remarks on China: While China is relatively poorly perceived in terms of quality and many other factors, it is remarkable that today, China is already recognized in the BRICs for being close to consumer needs and offering good value for money. So, even if Chinese brands are not the most aspirational choices due to relative weaknesses in many areas, they still do offer products that meet

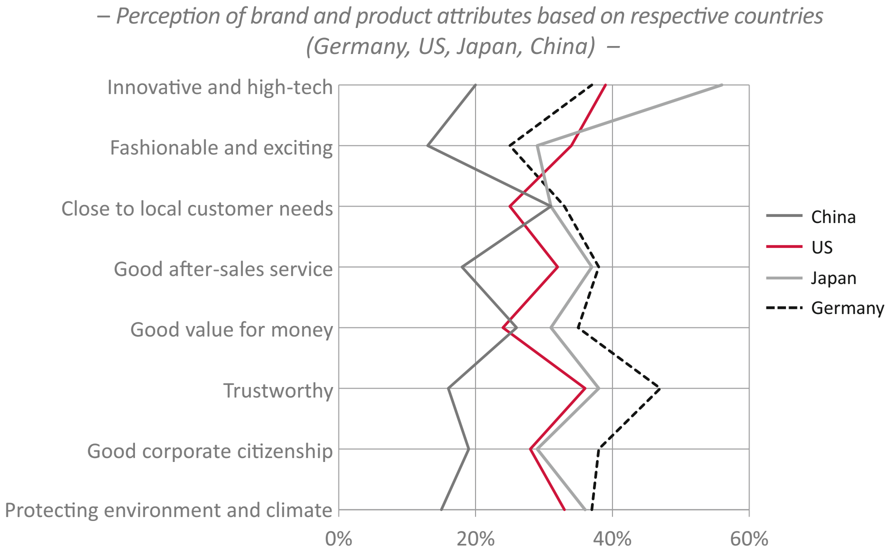


Fig. 8.42 Detailed analysis of the specific image of China versus the U.S., Japan and Germany in major performance dimensions based on 4033 interviews across the BRICs (2/2). *Source*: globeone (2011)

many relevant needs at a competitive price. It will be interesting to see how China will build on its surprisingly strong COO performance in the coming years as the quality level and market expansion of its champion brands continues to rise.

While the perception of foreign brands across BRIC markets is relatively consistent, there is quite some variation across different income levels. The systematic pattern is as follows; Usually, the preference for foreign brands is especially high in areas where the competence of foreign countries is perceived to be higher (e.g., in the automotive or high-tech industries). In addition, it is a common pattern that the preference for foreign brands increases in line with income level.

These findings urge foreign companies to make better use of their brand origin—given that they originate from or manufacture in a country with a positive COO. After all, emphasizing the brand origin is a cost efficient and effective way of ascribing attributes such as quality, durability and excellent design to a foreign brand by the means of transferring relevant associations. Conveying each of these characteristics individually is a time-consuming and expensive exercise yet communicating the origin of a brand is comparatively easy. Figure 8.43 gives an illustration of the favorable effects that the recognition of a positive COO can have on the basic brand performance dimensions. Surprisingly, however, this strategy is often not strategically deployed.

However, there are also good examples for successful practical use. One of these examples is shown in Fig. 8.44. Porsche cleverly introduced its new 911 with a revealing statement that leveraged the COO image: “We Germans are pedantic, persnickety, petty-minded nitpickers. Well, if it works . . .”

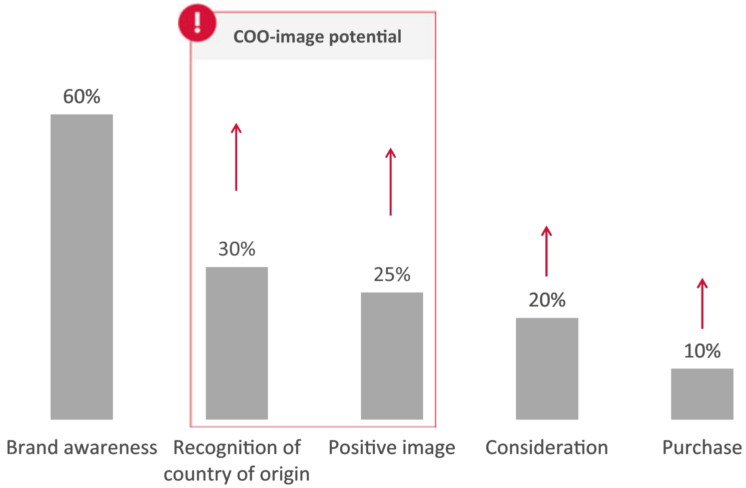


Fig. 8.43 A positive foreign country-of-origin perception can serve as an important driver of brand performance. *Source*: globeone (2014)

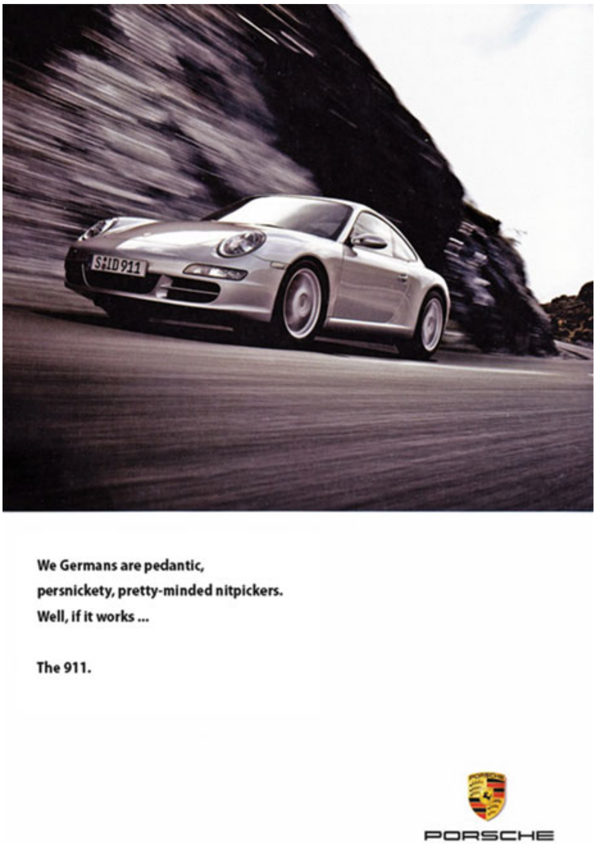


Fig. 8.44 Advertisement for the iconic Porsche 911 from China that plays with the brands German country-of-origin in a humorous way. *Source*: Porsche

BMW China artfully utilized its German brand heritage while acknowledging its important relationship to China, when it presented the "BMW X1" as "German Heritage, Born in China" in a 2012 advertisement celebrating the inauguration of its joint venture plant in Tiexi. One of the nicest examples for a campaign that combines storytelling and communication of brand origin is the "Brand Heritage Campaign" for the BMW 7 Series, in China, that is featured in Fig. 8.45. The TV commercial and the related print campaign takes the audience on a trip through the decades starting in the 1950s all the way to 2010. For each motif, the vehicle is staged in a typical foreign setting of the respective time. In this approach, the great tradition and heritage is clearly visible—as is the fact that BMW's flagships have always been a benchmark among premium cars in terms of automotive engineering, design and innovation. It is also this unique brand heritage and tradition of excellence that economic elites in the transitional economies perceive as very attractive. Furthermore, local competitors find it extremely difficult to match this unique brand heritage and foreign sophistication.

Volkswagen also makes good use of its favorable COO image. For example, instead of focusing primarily on its expensive, top-of-the-line models as it does in Germany, the Wolfsburg-based car giant emphasizes its moderate to medium-priced models and their origin in its communications in India. For example, the VW Polo and VW Vento are jointly advertised with the slogan "German engineering, Awarded in India." The German language claim "Das Auto" that is boldly used all over the world further enhances the positive perception of Germany as COO and other related aspects.

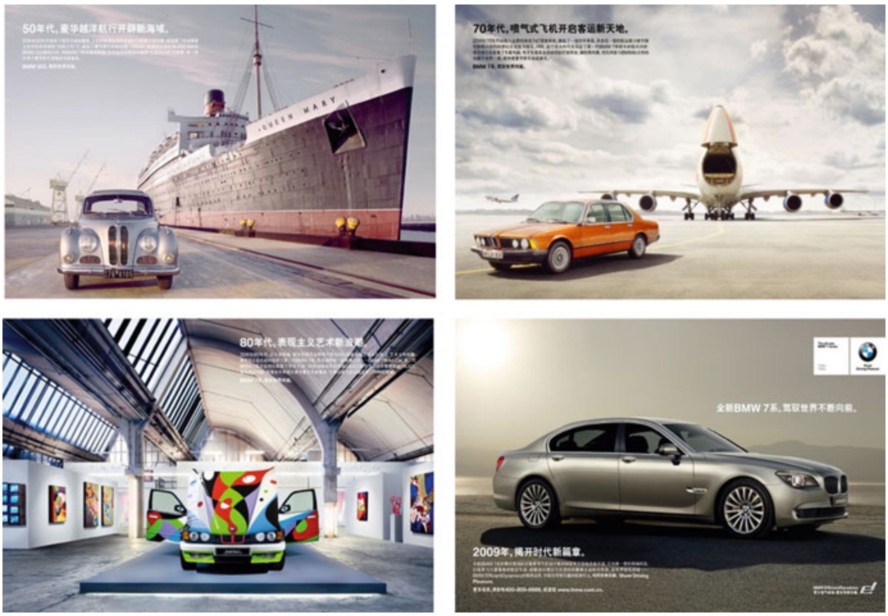


Fig. 8.45 BMW's brand heritage campaign highlights the tradition and foreign excellence of the 7 Series. *Source*: BMW China (2009); Agency: Interone China; Photographer: Marc Trautmann

Case Study: "Superior by Evolution"—The ULTIMAT3 BMW 3 Series

Company/Brand:	BMW Group/BMW 3 Series (2012)
Category:	Automotive/360 Degree
Country:	India
Agency:	Serviceplan

Situation:

The first BMW to be introduced in India in 2006 was the 3 Series and it lead the growth of BMW in India in terms of sales and brand recall. Sales and popularity of BMW increased drastically post launch in 2006. By 2012, BMW was the leader in the luxury car segment, but competition was closing in driven by the new Mercedes C-class and the new Audi A4.

Strategy:

Before the launch of the new BMW 3 Series research had revealed that the prime reason to buy a BMW was its superior brand value. In order to **highlight the product's superior brand value** to the Indian target groups, BMW and Serviceplan India decided on developing a campaign that focused on the **remarkable brand heritage** of BMW's 3 Series. During 37 years of its existence, the 3 Series was constantly evolving resulting in 6 revolutionary product generations. This heritage of ongoing revolution in terms of aesthetic design, innovation and dynamic performance was the core strategy behind the product launch. This outstanding heritage and tradition served as the key argument to support the perceived brand value, the quality and the performance of the vehicle. On the basis of this heritage, it was the mission to take the new 3 Series to new heights—thus further reinforcing the core values of the parent brand.

Campaign description:

It was a campaign of many firsts: The first locally produced BMW advertising campaign in India. The first advertising campaign in India that used QR code technology. The first BMW India advertising campaign that directly targeted at the age group 31–40. The main theme centered around brand heritage translated into the claim **"The ULTIMAT3 BMW 3 Series. Superior by Evolution"**. Overall, the campaign highlighted the remarkable (r)evolution of one of the most iconic cars of the world. It was a high intensity 360-degree campaign with a 14-day prelaunch phase and an extensive 30-day launch phase.

Besides TV and print, digital tools were leading the conversation as the target group was comparatively young and their buying behavior was different and unique. The QR code was the tool around which the campaign revolved. It allowed the consumers to directly gain direct access to further detailed product information.

Results:

The campaign was designed to deliver towards three dimensions:

Inquire: Make the target group curious about the new 3 Series

Involve: Get the target groups deeply involved with the brand, its key values and the product

(continued)

Inspire: Provide inspiration by showcasing the great heritage of the 3 Series

Overall, in 2012 BMW topped its Year-on-Year sales in India.

The catchy campaign for the BMW 3 series in India focused on the proud heritage of the brand that is positioned as being superior by evolution. *Source*: BMW Group/Serviceplan (2012)

Impressions of the TV commercial "The Ultimate3" for the launch of the latest BMW 3 Series in India. *Source*: BMW Group/Serviceplan (2012)

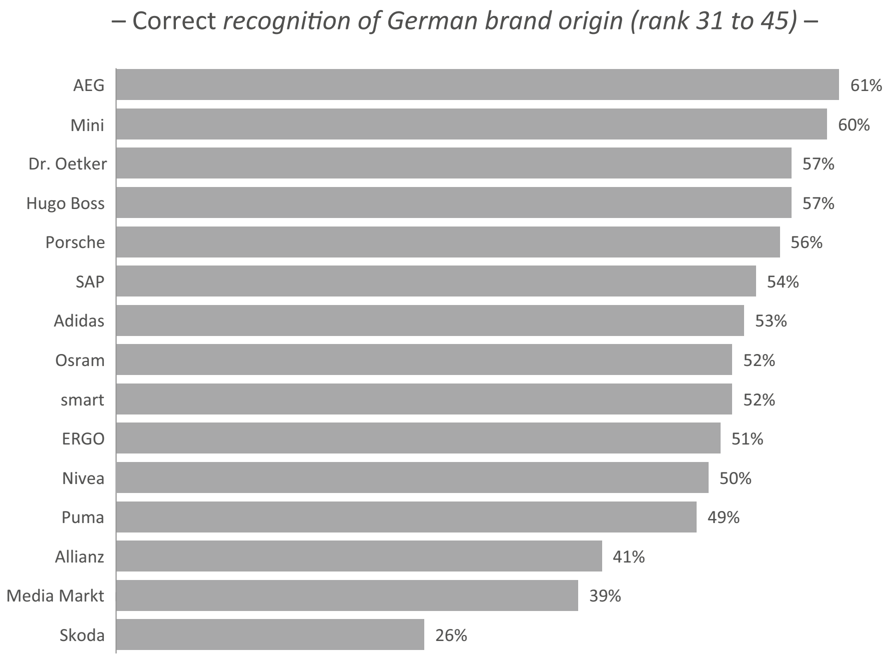


Fig. 8.46 Relatively low levels of correct recognition of the German country-of-origin by urban consumers across the BRICs. *Source*: globeone (2011)

One question remains: If the COO effect has such a positive leverage, why is it used so infrequently? As shown in Fig. 8.46, the BRIC branding survey found that out of the 45 German brands that were analyzed in detail, a large share of BRIC consumers were not aware that many of the German brands marketed locally had a German origin.

The answer is quite simple: Many foreign brand managers, the majority of whom are not natives of the country they operate in, simply forget to make their "foreign roots" a part of the brand positioning. We saw many cases of advertising campaigns, PR, events or online activities that completely lacked proactive communication of the brand's COO and related heritage despite the fact that this would have been very valuable to build differentiation, brand preference and additional price premium potential. The brand managers themselves were convinced that the target consumer "would already be aware" of the specific country of origin but in fact, many were not. Another reason is that most of the global brand positioning models have been developed back home in Europe or the United States, and exclude references to COO which is easy to understand. For a U.S. brand, it is not really necessary to highlight the U.S. origin to the consumers at home as they already know. However, the millions or even billions of new consumers in the growth markets do not necessarily know. Consequently, it is important for global brand models to offer a certain degree of flexibility so local marketing strategists can incorporate the COO or other strategic "drivers" of brand performance as an additional growth market-specific message that can be vital to success in the specific market.

8.9 Educational Approaches and Global Brand Heritage Storytelling

For most companies, their brand is one of—if not the most—valuable asset. However, the brand can only develop its full impact on its target customers if they know the brand's heritage, its promise, and its unique story. The most modern and widely accepted definition of a brand in marketing is that of being "the consumer's idea of a product or service." This suggests that the concept of brand knowledge, learning and the associative networks that are formed in the human brain to represent this knowledge, are of utmost interest. What does this mean for successful marketing in foreign growth markets? What challenges do brands need to overcome in terms of storytelling and educating the millions or even billions of potential buyers?

In the beginning, many brands are completely new to local target consumers and potential customers. For example, a staggering 70 % of Chinese car buyers in 2013 were first-time buyers. Most of them had just gotten their driver's license. As a group, they had a significant lack of product and buying experience when it came to cars. Many of them had never visited a showroom before, sat behind a steering wheel, or learned about the mechanical features of an engine. And even for many who had previous driving experience, the knowledge about the different brands and their unique features was rather superficial. Most people in the U.S. or Europe have grown up with their grandparents and parents owning cars of a specific brand and maybe as teenagers they had owned a motorcycle or driven around with their parents. Under these circumstances, specific beliefs, associations and attitudes towards certain brands have been formed early on. However, this is not at all the case with most consumers from emerging markets who are still very "fresh." In these cases there is more room to influence them and create the intended image through proper brand management and brand experience.

Nonetheless, in order to achieve this, you need a well-formulated strategy and dedicated implementation plan and there are several important assumptions that need to be kept in mind. Do not assume that the target consumers already know—just because *you* as a company insider know. Our brand research across the BRICs suggests that in many cases management overestimates what the consumers already know and therefore designs sub-optimal communication campaigns. There is also a strong need for training and explanation about what the specific brand stands for. This must be done in an engaging, interesting and motivating way. Simply overloading a classical advertising campaign with too many messages will also not do the trick. Keep in mind, the target groups in China, India, Brazil or other emerging markets are in many cases 10, 20 or even 30 years younger than those in the more mature Western markets. For example, a German bank that might target the most valuable target groups will locate those in Germany in the age group of

50–70. However, in China, India or Russia, these very wealthy targets are 30–40 years old and used to very exciting and engaging marketing techniques. Consequently, the bank will have to learn that the old-fashioned, trust and safety-based marketing messages do not necessarily resonate well with the "newly affluent consumer" classes where people over the age of 50 are sometimes even considered a "lost generation" that didn't have many educational opportunities and endured significant hardships in their younger years. In the middle of the income pyramid, you must also be very aware that many consumers don't have strong foreign language skills. Unless one is addressing the economic elite, English language skills tend to be rudimentary at best. As a result, you cannot throw too many English and technical terms at people, however design and other tangible proof points are very important. Additionally, it must be kept in mind that they need to be explained to consumers who are not technical experts in their own language, and they need to be told why this brand is especially suitable for them. Making your new customers familiar with your brand requires some patience.

Part of any brand strategy must allow for storytelling and explanation of the brand's history. Take your time to explain why you are unique and how much time it took you to become the top-notch brand that you now are. Except for your intellectual property, this heritage aspect and related foreign brand image is probably the only sustainable competitive advantage that cannot be quickly imitated. Telling your story is also the best way to allow your brand to ask for a considerable price premium over local competitors. How can this be achieved? Be bold, use simple explanations, strive for visual clarity and achieve outstanding creative execution to cut through the communicative clutter of the mega cities. Consider educational campaigns or brand academies to educate your target groups about your brand history and specific differentiators. Make extensive use of digital & social media because if properly used, social media is an exquisite tool for delivering your messages as it is highly engaging and cost-efficient, and can create powerful viral effects that also drive sales.

There are several instructive educational campaigns worth studying. One that was highly creative and very successful, not just because it was well embedded into the local cultural framework, is the "MINI Academy for Fast Learners." In Europe, MINI has an image as a cheeky, agile and individualistic small car. Back in 2009 in China, the brand did not yet develop its full potential as fast as marketers had hoped. So in 2009, management at MINI as well as top creatives Georg Warga and Kay Koester sat down and made an assessment. In China, MINI was initially perceived as a cute little car for girls and a fun vehicle for young people. However, male and more mature customers were under-represented in this clientele and MINI managers wanted to sell "the most exciting small car on the planet" to a wider range of customers. A creative strategy around the topics "dynamic driving experience," "iconic design" and "heritage" was designed. As can be seen in Fig. 8.47, the MINI Academy was born.

The goal was to educate consumers in China about the rich heritage of the MINI brand and to explain why the car is unique and ultimately more expensive than other small cars. It needed to be repositioned as cheeky, creative, outstanding,

Fig. 8.47 Powerful integrated educational campaign: the "MINI Academy for Fast Learners." *Source*: BMW Group/MINI

unique and individualistic. The company needed a platform that allowed it to communicate across different media channels within the local cultural context while making a strong connection with the Chinese mentality. So MINI created a real learning experience by using a large pool of local rituals, symbols and pictures that are familiar to every Chinese. The MINI Academy for Fast Learners is a challenging school with fun learning elements and classes that take about 5 min each. In order to earn their degree, attending "pupils" need to be very quick and agile. During the first month of the campaign, 1.3 million Chinese visited the MINI Academy and the number of MINI fans on Kaixin, China's Facebook, increased by about 1000 % within a short period of time.

The Coca-Cola Company provides another revealing example. In the summer of 2012, the world's largest beverage company turned its corporate homepage from a standard investor relations appearance to a digital magazine. By treating its website as a newsroom, Coca-Cola's "Journey" website now targets individuals who are interested in more content about the brand itself. Therefore, Coca-Cola contracts writers, photographers as well as guest posters and additionally uses infographics, stories and opinion posts. Moreover, it keeps the emerging markets and its new middle class consumers in mind. The Journey features stories that explain how the beverage company is addressing climate change and poverty in India, how it advertised in Brazil back in the 1940s, and how its "Happiness Truck" nowadays rolls around Russian roads.

One of the videos on the website shows how Coca-Cola set up "Small World Machines" in India and Pakistan to foster good neighborhoods. The vending machines had cameras and were placed in local malls in both countries. They allowed customers who stood in front of the machines to say hello in real time to their counterparts in the other country who stood in front of similar machines. People put their hands on the giant screens of the machines during the "join hands" campaign where they danced and toasted to each other with cans of Coca-Cola. With the execution of this campaign the U.S. soda giant presented itself as a good citizen that helps to make friends.

In Brazil, TAM airline created its own educational campaign. With 10 million new passengers taking to the skies each year, Brazil's airlines have lots of educating and teaching to do. TAM launched its own microsite "Como Viajar" (How to Travel). Here, people can learn everything about passenger flights and the "host" of the site, who offers flying advice, is a regular person, not a celebrity. While setting up this source of information the airline also trained its check-in staff and flight attendants to help passengers flying for the first time. Everything from ticket pricing to the use of the airplane's washrooms is explained.

Another great example of an educational campaign is Unilever India's campaign for its soap Lifebuoy. The 2013 campaign is set at the Indian Kumbh Mela, a holy festival that features one of the biggest agglomerations of pilgrims in the world and culminates in the ritual bath in the river Ganges that stands for immortality. As Indians traditionally eat their food with their right hand, hand washing is an important habit that can help to avoid diarrhea, which still kills approximately 1.1 million people per year in the developing world. Unilever provided hand washing facilities to the pilgrims and used the traditional Indian roti breads that are an indispensable part of each meal as the medium for its campaign. The campaign simply asked the question; 'Did you wash your hands with Lifebuoy?' on 2.5 million roti breads. The campaign turned into a wild success.

8.10 Catching the Second Wave: The Retention Challenge

The rapidly changing consumer environment in large emerging markets presents brands with a new challenge: How to retain customers when the competition gets more intense, when consumers become more knowledgeable and feel safer trying out less well known brands, and when a wave of second-time buyers makes keeping existing customers an equal challenge to winning new customers? "We are living in the times of elasticity," explained Ramesh Iyengar, managing director at Select Direct Marketing Communications in Mumbai in a discussion panel during the 2012 annual conclave of the Direct Marketing Association of India. "The customer is in a harem where he is spoilt for choices. What you do, do differently. We should think of customers as flesh and blood."

Classic brand loyalty programs are a combination of rewards and recognition. The objective is to retain existing customers to ensure they continue to purchase the company's products or services. But how do you execute such a strategy in the large emerging markets, where consumers are much less loyal, where they profit from a growing number of choices and where they tend to trade up quickly and with vigor, while raising their expectations? How do you know what to look at? What

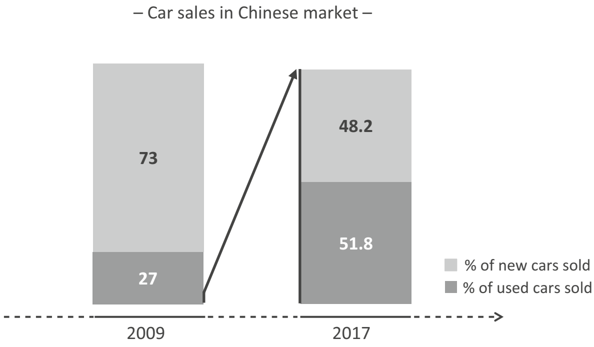


Fig. 8.48 The emerging wave of second time buyers: changes in the number of new cars versus used cars sold in China. *Source*: Arthur D. Little (2011)

motivates consumers to stay with their current brand? Does the cultural background make a big difference in how customers define loyalty? There are many questions, but one thing is certain: In a fluid environment like the BRICs, product and brand managers need to know their customers very well, they need to stay as close to them as possible, engage them through the most effective channels and deliver the full brand experience.

In many categories of big ticket items like cars, white goods or other major consumer durables, it is now time that a significant number of consumers starts to engage in replacement purchasing. The following Fig. 8.48 illustrates the big wave of 2nd time purchases indirectly. In 2017 the used car market will have grown to over 50 % of the overall market. However, most of these 2nd hand cars will be replaced by new cars. This indicates the massive number of replacement car purchases in China.

Volkswagen in China is a good example of how important—and pressing—the retention challenge has become. VW managed to gain slightly more than a 50 % market share after the company entered the Chinese market in the 1980s. After a major setback following the opening of the local market in the wake of China's WTO entry, Volkswagen's market share briefly dropped below 20 %. But the German company has managed to stay No. 1 in China, even though there is a growing number of buyers who want to trade up, and even though there is a significant tendency to experiment with new brands. As shown in Fig. 8.49, brand loyalty in Western car markets can reach around 80 %, while it is only approximately 10 % in China, and while the re-purchase intentions among Japanese car drivers for their current car model are estimated at 50 %, they reach only about 7 % in the People's Republic. People just want to try new brands and trade up with their next purchase.

China's car market is approaching a level where 1 out of 3 customers are repurchasing a car for the first time and that makes retention a major challenge. VW has not only managed to dramatically broaden its model portfolio to offer customers a migration path within its own range of offerings but has also initiated a retention strategy in order to keep customers within their group cosmos. Key elements of this strategy include the definition of a consolidated approach of

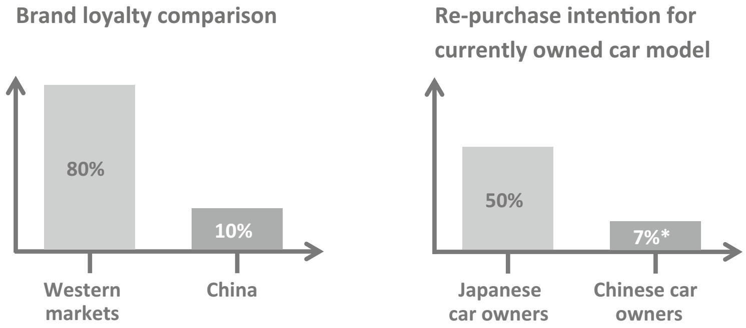


Fig. 8.49 Anecdotal evidence about the different levels of brand loyalty across different markets. *Source*: Booz & Company (2007)

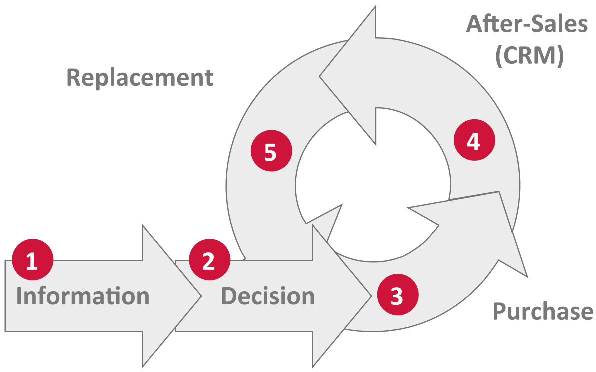


Fig. 8.50 Visualization of the basic customer retention cycle

what the key expectations of customers and retention drivers are, an after-sales CRM strategy, a solid screen for the most effective CRM implementation partners and a clear understanding of consumption motifs—as discussed in the context of their cultural background earlier in this chapter. The basic phases in a classical customer retention cycle are shown in Fig. 8.50. While these basic phases do not differ much, the actual information tools and retention activities can vary a great deal depending on the market as well as the local context.

There are a number of good examples regarding successful loyalty management programs in the BRICs. One of them is the "Malina" initiative in Russia, operated by Loyalty Partners Vostok. Malina started in April 2006 with five partners who are all leaders in their markets, among them the Rosinter restaurant chain, telecom operator Vympelcom and the BP-TNK chain of gas stations. The joint credit card that was issued is simultaneously a VISA card and a Malina loyalty program card. All family members of the cardholder can accumulate points on the common account and gain rewards. One year after the start of the program, 2.1 million cards had been issued. Two years into the initiative, Malina was already Russia's top loyalty program and the favorite plastic card in the wallets of Moscow's consumers. Rosinter Restaurants reported an average transaction increase in some of its outlets of almost 23 % compared to "usual" average transactions. TGI Friday's—another partner in the initiative—saw a 34.5 % increase during the first 2 years.

In their 2012 Global Consumer Insurance Survey Ernst & Young suggested it was "time for insurers to rethink their relationships." The survey was based on interviews with 1000 consumers of life and non-life personal insurance products in India. Among the main findings was the impression that customer loyalty on the Subcontinent was "fickle" and very much dependent on "price points, customer service and innovative product offerings." According to the survey, only one in five Indian consumers described themselves as very loyal to their favorite insurance brands. Some of the key advice given in the survey was the importance of better understanding customers, who are surprisingly well aware of their needs and have a strong need for personal interaction—which is held in much higher esteem in the BRICs than in the West. The survey also confirmed much lower loyalty levels in emerging markets compared to Europe and the United States, with persistency levels significantly lower in India. 17 % of Indian consumers revealed they had switched insurance providers during the five preceding years, which was considerably more than the global average of 10 %.

Some really helpful insights come from the COLLOQUY Cross-Cultural Loyalty Study, a global loyalty compass that examined the attitudes of consumers in three developed (Australia, Canada and the U.S.) and three developing (Brazil, China, India) countries (COLLOQUY 2011). The report confirms the sense that foreign brands are better accepted in emerging markets than in developed countries. It also reveals that in emerging markets, consumers are three times more likely to define themselves as "expecting special service," perks and privileges. Almost three times as many shoppers in emerging markets say that it pays to be loyal to favored brands, which indicates the potential power of loyalty programs. The word-of-mouth effect, highlighted earlier in this chapter in the context of increasing social media influence, was also found to be more highly ranked in emerging markets. In many cases, this interaction could be termed a "trialogue," as it is a conversation between brands, their customers, and the customer's network of friends and family.

The growing role of mobile services in delivering more customer gratification and loyalty was confirmed by the 2012 Customer Loyalty Engagement Index. The index, published by Brand Keys, finds that loyalty is primarily driven by emotional engagement. The highest-ranking brands in the index all displayed high levels of emotional engagement as well as the ability to deliver on consumers' expectations. On the contrary, the brands that were ranked lower on the index were mostly those that had either not fulfilled customer expectations or failed to do so by mobile. Vivo, South America's largest mobile phone service provider, is a telling example. Vivo, with more than 60 million users, created an app with Brazil's national soccer team where fans could watch live games, check out team rosters and standings, and read exclusive content like interviews with coaches and their soccer heroes.

There is yet another factor that should not be underestimated. It is the aspiration of shoppers, who are the first and best-educated generation in their families, to fulfill their dreams. Consumers in emerging markets are much more likely to look for aspirational benefits and as a result brands that help customers to dream and indulge in great moments have higher chances of success. An example is Multiplus, a frequent-flyer program that was a spin off of Brazil's leading airline TAM. Multiplus was the first customer loyalty program in Brazil to list its shares on the Sao Paulo exchange. It offers a wide range of experiential activities, among them learning to brew beer, driving a Ferrari or attending English classes. Last but not least, while customers all over the world cherish special treatment, there is evidence that nowhere is the desire to be pandered to higher than in the BRICs.

8.11 Expansion Along Regions and City Clusters

China, India, Russia and Brazil are countries with continental geographic proportions. Applying a one-size-fits-all approach hardly makes any sense. If you want to seize the best growth opportunities, a strategy focusing on the relevant regional or city clusters makes perfect sense. A country-level operational strategy would not take into account the vast diversity and unequal development within these huge countries. But top tier cities are only one possible target if you want to accelerate growth. Moving beyond the well-known large cities into rapidly evolving growth centers in the "hinterland" of the country is another option within this cluster strategy.

In the "Urban World Report" from 2012 it was forecasted that by 2025, around one billion people will enter the global consuming class, and roughly 600 million of them will be in only 440 cities in the emerging markets. The additional purchasing power will be so concentrated in these consumption "hot spots" that their sales growth will be larger than the gains in whole countries in Europe and the Americas. The report used laundry care products as an example to explain the scope of this development: "We expect to see more sales growth of these products in Sao Paulo than in either France or Malaysia over the next decade" (Dobbs et al. 2012). Same holds truth for India. By the end of the next decade, for example, Mumbai's economy is expected to be larger than Malaysia's today. But even then, more than a decade down the road, Mumbai will only represent 5 % of India's national economy. The country's 14 largest cities will contribute almost a quarter to the national economy, and China, by that time, will have roughly 150 cities with at least one million inhabitants each. Nevertheless these sizable local markets display a huge variability.

One factor to incorporate into your plans when approaching the BRICs with a cluster strategy is timing. Many multinationals for example are still focusing on Sao Paulo state, when they venture into Brazil. Sao Paulo's economy is larger than Argentina's, and the state represents the richer part of the diverse country, however competition is significantly tougher and retail prices are lower than in the less developed Northeastern Brazil. The Northeast is populous, historically poorer and growing faster than the South. So why not focus on the Northeast as well, or even exclusively if you have limited capacity?

The art of expanding along city clusters begins with researching and understanding the variances of the target countries, and then concentrating on the most promising ones. It is not difficult to effectively identify these clusters. They can be groups of cities aligned by a particular industry structure, by demographics, comparable consumer behavior or geographic proximity. The biggest possible—but not only—benefit of concentrating your resources on city clusters is the opportunity to exploit scale and existing distribution networks in order to achieve faster and more profitable growth. Moreover, if you succeed in certain clusters, you might be able to build critical market share which allows you to build dynamics and transfer your success story into other regional cluster markets.

China has several well-known city clusters. The province of Shandong, for example, counts 21 cities among China's 150 largest. That puts it into the top five city clusters within China. Xi'an, Chengdu, Chongqing, Wuhan and Suzhou are additional epicenters of city clusters within China. One way to identify the most promising cluster for you would be to establish the existing level and future growth of income. Are consumers just starting to buy their first cars? Are they starting to consider the purchase of imported or luxury goods? How many middle-class households do they have, and what do the latest reliable forecasts tell you about the expected income growth? Are they migrating into product categories that belong to your segment? Executives in successful companies agree that asking detailed questions is very important: Colin Currie, the managing director of Adidas Group in Greater China, explained in early 2013 that "China is one market, but two worlds." Currie expects small, lower-tier cities in the most populous country to contribute 60 % to overall growth in the fashion market for the years to come. Furthermore, he forecasts that 45 % of consumers there will be counted as middle class by 2020. According to Currie choosing the right cities or clusters is only part of the recipe for success. Brand companies really need to understand every detail of their target markets. Shopping habits and consumption motifs can vary widely, even from town to town. "For higher-tier youth it's about individuality, they don't want to "follow the herd", explains Currie, "at the lower tiers it's about belonging, about becoming cool." Another top manager who confirms the importance of cities and clusters is Darshan Mehta, the president and CEO of Reliance Brands. Mehta claims that "if luxury sector growth in India is going to escalate, it has to look beyond same-store sales and set up new stores at the right places." In emerging countries, the population of cities grows by 60–70 million people every year. This is 60 times the size of Cologne, or 8 times New York City's.

Another critically important consideration is whether your cluster is homogenous along the criteria you have defined. One well-known example are the neighboring Chinese tier-one cities Shenzhen and Guangzhou. In Guangzhou, people speak Cantonese, they are mostly locals and they spend a lot of time at home with their families. In Shenzhen, most people are migrants from other parts of the vast country, and they mostly speak Mandarin. Putting both cities into the same cluster would confront you with the necessity to apply completely different campaigns.

The media campaigns for your brand would need to be significantly different in both places, to begin with. Once you have decided for one or more specific regional or city clusters, you need to keep in mind how many submarkets you want to target. The more submarkets, the more difficult it might be to be as effective as you want. Always keep national differences in mind.

In India, the same number of clusters—or submarkets within a cluster—can be a much larger challenge because of poor infrastructure, the more informal distribution and retail networks, as well as the lower grade of urbanization. Covering the 10 most promising Indian states with the highest expected growth by 2030 would include more than 3000 towns and over 300,000 villages. Nevertheless, large and successful corporations like Hindustan Unilever (HUL) have rolled out their own cluster oriented campaigns. For Hindustan Unilever, this program is called WIMI—”Winning in Many India's”. Previously, HUL—being the country's largest FMCG company—broke up India into four regions. Now, under its CEO Sanjiv Mehta, it has added a fifth region and has started to use consumer insights that are based on a parallel geographical structure which carves out 14 different parts of the country, all being city clusters. The company stopped seeing India as a homogeneous country with “a few big markets”. Instead, it has started to view the country as a “mosaic of markets.”

8.12 Acquisition and Revitalization of Local Brands

In some industries or product categories within emerging markets, consumption dynamics are shifting so quickly that it can make sense to take over existing local brands, revitalize—and, if necessary, re-position—them to save time and money and capitalize on that market's growth story as fast as possible. Usually, the acquisition and revitalization of local brands takes place in categories such as food, beverages or other consumer goods as tastes, habits and preferences can be very local and closely related to the local culture. This approach is also more popular in the middle market, as there are usually fewer local brands that enjoy a luxury or top premium appeal in the BRICs.

A major driver for acquiring and revitalizing a local brand is speed and accelerated market access. In China for example, political support for rising wages, labor-market reforms and the increasing role of private enterprises is likely to double urban incomes by 2022. In such a high-speed environment with its rapidly shifting currents, it can make sense to acquire an existing brand. Take India's latest push to reform the retail market, it can change the industry much faster than it takes to build new brands. Or think of massive sporting events like the FIFA World Cup in Brazil and the Summer Olympics; they can shake and revitalize whole markets in a way that forces foreign brands to move much quicker than initially anticipated to avoid losing precious time. However, time is only one factor that must be considered, loyalty is another. While many domestic competitors in rapidly industrializing economies are still weak in terms of growth, they can have very loyal customer bases. In general, the commonly cited advantages of acquiring and revitalizing a local hero brand are as follows:

– an established name that already enjoys high awareness
– an existing, loyal customer base (usually among more traditional consumers)
– a functioning distribution or less resistance in local distribution channels
– positive image associations (usually linked to aspects of local culture or nostalgic feelings)

A brand acquisition and revitalization strategy is usually applied in the mass market where many consumers still know the brand from past experiences. If consumers are older and more traditional, these brands might even evoke some warm feelings about the old days of someone's own youth. Therefore, these brands might already have built relevant associations in the consumer's mind that now need to be revitalized and complemented with other aspects that will be relevant in the future.

Brand revitalization is defined as a strategy that aims to recapture lost sources of brand equity and identify and establish new sources. Such a strategy usually includes substantial product & portfolio modifications and general brand re-positioning.

One of the best-known examples in the BRICs is Thums Up, a major Indian cola brand with local taste. When India's government issued an edict in 1977 to Western companies and ordered them to hand over control to their Indian subsidiaries or leave, Coca-Cola left and several Indian companies tried to capture the national soft drink market. One of them was Thums Up, launched in 1977 by Parle, a food and beverage company in Mumbai that currently is India's largest manufacturer of biscuits and confectionery. Thums Up ruled the Indian market for 16 years and reached a market share of 35 % at its peak. After the launch of reforms in 1991, the government started to loosen controls and Coca-Cola and Pepsi re-entered the country. Coca-Cola bought Thums Up from Parle in 1993 and wanted to terminate the brand in order to protect Coca-Cola in India. However, it turned out that resistance from loyal distributors and consumers foiled the attempt. After strong protests and a 30 % loss in market share, Thums Up was re-introduced. Coca-Cola invested heavily in the brand and revived its "Taste the Thunder" campaign, naming Bollywood action hero Akshay Kumar as new brand ambassador. Following this, Coke turned Pepsi's playbook against the competitor. In one advertising campaign, actress Pooja Bhatt picked Thums Up over Pepsi in a blind taste test, applying Pepsi's usual tactic. Thums Up also signed actor Salman Khan to play an Indian Air Force fighter pilot to pre-empt a Pepsi promotion that featured "Top Gun" pilot Tom Cruise. Now, with a market share of around 17 %, Thums Up is ahead of Pepsi in India, and Coca-Cola is glad it decided to try and beat Pepsi with two different brands. The following Fig. 8.51 shows a recent campaign for India's homegrown cola.

With slower growth in Europe and North America, as well as more consumers moving into the middle classes in the BRICs and the ascent of the rural hinterlands,

Fig. 8.51 Recent campaign for Thums Up cola in India. *Source*: Thums Up media center (2015)

Western companies are now trying to tap more quickly into emerging markets and taking over local brands in order to revitalize them has become increasingly popular. In April 2013, Unilever announced plans to pay $5.4 billion to raise its stake in its Indian subsidiary Hindustan Unilever from 52 % to as much as 75 %. Unilever is one of numerous global companies with Indian-listed subsidiaries—a legacy of earlier ownership caps. The transaction is Unilever's biggest deal in 13 years and it turns out to be the largest single investment in India's consumer goods sector ever. With India trying to further open up some of its markets to sustain growth, it won't take too long before an even larger deal will be announced.

One of the latest deals involving a local player was the buy-out of the Chinese hot pot chain Little Sheep by U.S. fast food giant Yum Brands in 2012. The deal became known as one of the first successful foreign takeovers of a major Chinese brand. Yum is still working on the makeover of the Little Sheep brand and the jury is out as to whether it will be a big success. Little Sheep specializes in Mongolian hot pot, in which diners dip meat and vegetables into shared cauldrons of spicy broth. Little Sheep had around 450 restaurants when Yum purchased it. For Yum, the acquisition is a chance to diversify into the fast growing full-service Chinese restaurant segment and maintain momentum in its largest growth market. However, according to Little Sheep's annual report in 2011, the company needed not only new funds for development but also to optimize its business and refurbish its existing restaurants. It wanted to strengthen its brand image and improve its overall profitability. Like some of its competitors, it encountered bottlenecks in growth and innovation during a period of exceptional growth for the industry, and it saw a drop in the number of frequent visitors.

It is interesting to see that Chinese hot pot chains are starting their first forays into the U.S. market while Yum is trying to get Little Sheep back on track. Hot pot chain Hai Di Lao ("fishing in the bottom of the sea") announced its entry into the U.S. in the summer of 2013, with a highly innovative concept that includes hand massages, Internet terminals and manicures for diners waiting in line to be seated. The chain tries to differentiate itself from the competition with a mix of good services and shows, featuring ‘noodle masters’ who dance while they pull fresh noodles and magicians in traditional garb. The attentive staff offers hair elastics for customers with long hair, plastic bags for mobile phones and hot towels for sweaty diners. In its restrooms, Hai Di Lao offers an array of free perfumes and lotions. This is yet another example of the competition European and American companies will face in the years to come. The best way to get prepared for these new champions is to engage them in their own markets before they grow up, go global and consequently pose a serious challenge.

The Georgetown University’s McDonough School of Business published research in 2011 showing the acquisition of local brands can be critical to international expansion strategies. The researchers used data from Euromonitor and studied product categories like beer, hair care and carbonated soft drinks in the BRICs markets. They found that a significant part of the success multinational companies enjoy in emerging markets is derived from local brand acquisitions. Among other findings, researchers observed that international companies are more tempted to acquire local brands when—like in the beer industry—the loyalty of local customers is rather high (Johansson and Leigh 2011). According to the study, the share of purchased local brands in Russia rose strongly during the last decade. In India and Brazil, on the contrary, local competitors proved to be more resilient and showed more market share gains than global brands. In China, international companies increased their market share significantly in some industries—also through local acquisition strategies.

8.13 Vertical Brand Stretching to Explore the Middle Market

The emerging growth markets comprise an amalgam of fast-moving targets. Designing, manufacturing and marketing brands in these extremely fluid environments can only be successful if companies challenge their own way of doing business, work based on proper market insights and constantly force themselves to re-assess and adjust their assumptions. Understanding the main concerns of their primary customer base and the dynamics that drive their brands in the market is not only crucial but is also increasingly strategic, as the revenue derived from emerging markets by multinational corporations is becoming increasingly important to their bottom lines.

In China, for example, labor-market reforms and policy initiatives are pushing wages up, creating a new consumer class in rural Western China, while the income of urban households continues to rise rapidly, expanding the ranks of an upper middle class that, loves to pay a premium for quality and has a shopping wish list that goes far beyond basic necessities. In 2012, this upper middle class segment accounted for only 14 % of urban households in China. By early next decade this share will have climbed to slightly more than 50 %. Marketers who miss large consumer shifts such as this one will potentially lose out on billions of dollars in business.

The rural consumption story is huge, and it might well shift the balance of corporate power for years to come. In early 2013, Audi, the unit of Volkswagen AG, overtook Bayerische Motorenwerke (BMW) as India's top seller of luxury vehicles because Audi managed to rapidly expand outside of large urban centers. India is also a good market to study the immense dynamics of shoppers moving up the consumption value chain. In the first half of 2013, the entry-level A segment of India's car market—models like the Maruti Alto or the Hyundai Eon—and the bread-and-butter B segment experienced a sharp deceleration, while premium hatchbacks and SUVs became the new growth story. The simple explanation: More and more people were electing to purchase bigger cars. According to industry experts, this trend up the value and price chain is driven by a new class of first time buyers who are joining the ranks of car owners at higher price points. While this trend is partly a reflection of the slowing growth after the financial crisis—which hit incomes with a smaller discretionary income share relatively harder—it is also a reminder of the rapidly changing income pyramid. The same story may be observed in China's retail sector, where mid-tier brands are starting to lose favor as many consumers switch to premium brands.

In the sportswear market, for example, local champion brands like Li Ning were hurt by the swiftly changing consumer landscape. Chinese shoppers thanks to their quickly rising incomes have started to differentiate between wearing casual day-to-day shoes on the one hand and purely athletic gear on the other hand. If products and brands are not adjusted and positioned precisely according to these quickly changing market currents, large markets like China, India or Brazil can turn out to be disasters for Western companies. Achieving the right positioning is further complicated by the fact that foreign brands in emerging markets are often perceived to be premium brands, just because of their labeling and origin. Very often, marketers of the foreign brands are not aware that foreign products in the BRICs are already positioned differently simply because of their price level. Determining what adjustments are necessary is part of the job.

Rising competition, driven by new local champions in the emerging markets, is another reason—an external reason—for Western brands to expand their international footprint by targeting these markets. Otherwise they risk being overwhelmed by new competitors from those emerging markets in their own established markets—sometimes in just a few years. Already, multinational pharmaceutical and chemical companies face growing headwinds thanks to local competitors in China, which is on track to become the second-largest pharmaceutical market after the U.S. by 2016. International companies in the industry have seen their market share in China decline from 37 % in 2000 to just 25 % by 2010. This happened in conjunction with the 2009 reforms, which extended medical coverage to rural and urban unemployed populations. German export companies are well aware of the growing risk posed by new competitors that are now starting to seek growth beyond their home markets. In a 2013 study, German Research Institute Prognos revealed that German exporters are losing market share to their Chinese competitors in industrialized countries outside of Europe (Prognos 2013). Even flagship industries like Germany's machine tool sector are observing that China has already managed to become the largest exporter to leading markets outside of Europe. In the years to come, German companies might even be in danger of losing market share to China in their core European markets. There is only one logical and promising way to counter this challenge: By facing off with the new competition on their home turf. But the main task is to build a customized market strategy that reflects the actual environment—including the huge middle market opportunity—rather than the established assumptions that dominate the discussions in the boardrooms back home.

But between the top 10 %—often called "super consumers"—and the desperate poor, there is a wide variety of rapidly changing income layers. When Western companies entered growth markets such as China or India in the last decade, they traditionally focused on the premium segment, only to find out later on that they were missing the upper-middle and economy segments and the rich potential they represented. Working this middle market requires some stretching because marketing for the top segment alone does not offer maximum rewards given the effort it takes to enter these large and complex markets. A smart "stretching" of brands is an effective, promising and cost-conscious way to expand the reach and sales of a brand beyond the premium segments.

While downward brand stretching is quite uncommon in developed markets, it is a frequently used strategy in growth markets to adequately respond to the opportunities that exist in specific markets. In comparison to the creation of a completely new brand, stretching offers a much faster speed to market as well as substantially lower communication costs. There is just no need to educate consumers about a completely new brand. International surveys suggest that 60–80 % of marketing directors are favoring brand extensions over the creation of new brands. However, in Western marketing text books, you will hardly find references to downward brand stretching as this used to be anathema to conventional thinking. Traditionally, a brand should be firmly positioned as either "luxury," "premium" or "economy" in order to avoid confusing consumers and eroding of the premium appeal of the brand.

However, the circumstances in the large emerging markets prove this conventional wisdom to be wrong. There is much more room to grow in the middle markets, so foreign brands need to be flexible enough to explore this potential in new ways. From a strategic point of view, it is an imperative to not simply sell premium products from the home market in a one-to-one approach to most affluent consumers in emerging markets. While this strategy usually works well initially, it normally does not allow the management to generate a deep understanding of the local market. But this deep market understanding is crucial in order to dynamically adjust the brand and products to the local market conditions and to develop a pipeline of locally relevant innovations.

Companies that follow a static and standardized approach are also not well prepared if they are attacked by strong local middle market players that are going premium in step two of their strategies. While most brands from Europe, Japan or the US are very strong in the premium markets, the market shares in the "below premium" segments are, in many BRICs cases, extremely low. The general perception in emerging markets that Western brands are premium and therefore also expensive further supports this fact. However, the overall business potential in the "middle and upper middle class markets" is there. It requires the right products (or sometimes brands) that can initially fulfill more basic needs at a somewhat lower price until also the targeted middle class consumers are ready to "upgrade" to the brand's premium offerings later. This is the method called "brand stretching" that most Western brands—in B2B or B2C—are slow to adopt. It is easier to sell more or less global premium products instead of trying to conquer the local middle market segments with tailor-made solutions or to acquire local brands that already successfully operate in the middle market. But the middle market that might be missed—or neglected—is huge. For example, the population of the middle and affluent classes in China will equal that of the European Union within the next 10 years. As shown in Fig. 8.52, the corresponding growth in consumption will mainly happen in the 114 mid-sized tier 2 or tier 3 cities as well as 8 mega cities with more than 10 million inhabitants each.

New research supports brand stretching as a major path to sustainable success in the BRICs. In a "Featured Insight", Nielsen India described the results of a comprehensive market study that included 82 brand extensions across 46 different categories in the Indian FMCG brands market (Nielsen 2012). According to the paper, already 30 % of revenue of the top 23 FMCG most trusted brands came from

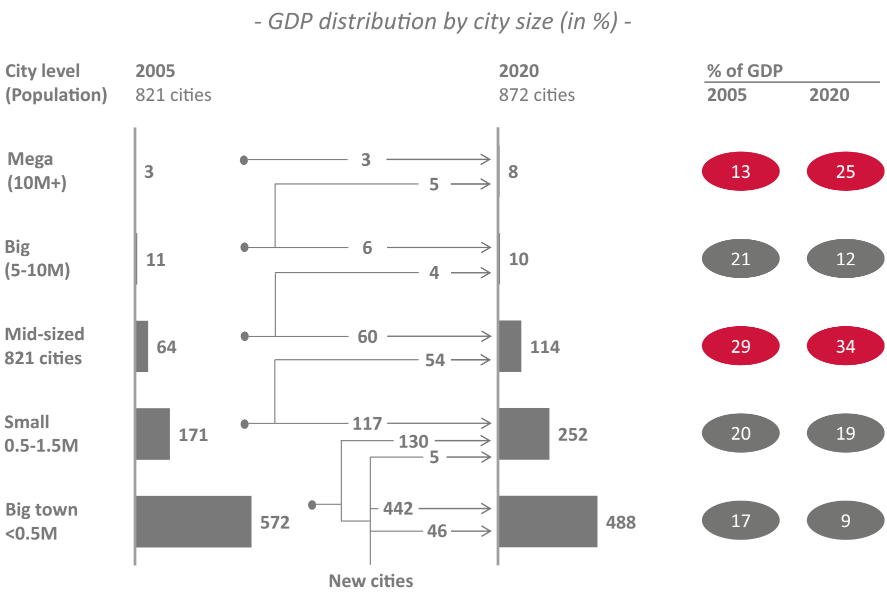


Fig. 8.52 City development until 2020 and related opportunities in China's middle and affluent class. *Source*: McKinsey quoted in Volkswagen (2012)

brand stretching. Even more critical: Brand stretches were found to be five times more likely to succeed than new product launches. These are convincing results, especially in a weak global environment where inflationary pressure forces management to find new paths to profitable growth, and where rising incomes in emerging markets offer new opportunities to engage in evolving growth segments and categories. Brand stretching not only offers a cheaper and less risky way to expand market reach but also enables faster market share gains and a quicker built-up of distribution in comparison to new brands. These insights are relevant not only in India. In Brazil, for example, more than 70 % of the products available on the market are brand extensions—many of them being brand stretches. After years of neglecting the opportunities that a more locally adjusted marketing holds, even the large global consultancies are more and more rediscovering the power of catering to the middle market. For example, Roland Berger Strategy Consultants have published a paper that discusses downward brand stretching under the term "frugal" innovation. Here, frugal stands for the most important aspects that are necessary to succeed in the middle market: offering products that are functional, robust, user friendly, growing, affordable, and local (Roland Berger 2013).

In emerging markets, one of the most popular ways to extend product reach is vertical brand stretches, an innovative strategy that has been used by the automobile sector for years. A vertical brand stretch is when you move up or down in price and/or quality from the core brand in order to reach additional market segments. Think of Mercedes stretching all the way down from the S to the A-Class. Or think of the whole range of Volkswagen that reaches from the luxury flagship Phaeton down to the micro-car Volkswagen Up. In the BRICs, where millions of consumers are trading up through different income segments with even more consumers following close behind them, vertical brand stretching is now widely practiced. And many, not only in the FMCG business, see vertical stretching as the quickest way to leverage the equity of a core brand and attract a bigger variety of market segments.

Nokia is one of the earliest examples of a company adapting quickly to new local market realities while vertically stretching its product portfolio within the same category. In 2003, the Finnish cell phone company launched the entry-level Nokia 1100. The phone was designed for emerging markets, with a lot of India-relevant features like a flashlight, a dust and dirt resistant surface and an anti-slip grip. Priced for low-income consumers, it was sold with the tag line "Made for India." The results speak for themselves: Nokia India managed to gain and secure long-term market leadership, achieving a market share of 39 % by September 2011. Another popular example of vertical brand stretch in India is the Suzuki-based Maruti Alto. The car is available in an LX and a VX version, with these two models being offered at substantially different price points and quality levels.

Vertical brand stretching can—and in most cases should—encompass more than just pricing. It can involve a change in product formula or packaging in order to reach a wider range of customers and increase sales. If you want to avoid cannibalizing the core brand, it is usually advisable to differentiate between the core brand and the brand stretch in terms of taste, smell, product features and performance, applications, packaging, and brand communication as well. The point is: High-income customers might otherwise be tempted to switch to the cheaper brand and cause a loss of revenue if price is the only differentiation. A good example to illustrate this point is Procter & Gamble's Crest toothpaste. In order to further expand into the Chinese mid-income market, P&G changed the brand's formulation and packaging. The premium "Pro Health Complete 7" toothpaste is aimed at top-tier consumers and is positioned as fighting against seven oral-health issues caused by modern lifestyles. The properties and claims related to "whitening of the teeth" are reserved for Crest's premium products only while the basic anti-cavity repair properties are geared to a nationwide audience (Beattie 2012). Similar approaches are taken with skin care products as well. The basic function of a face cream might be softening and smoothing the skin, while more expensive products are likely to add wrinkle reduction or dark spots concealment.

Vertical brand stretching, however, is not without its dangers. Overstretching can have adverse consequences. The core brand's sales can be cannibalized if the new brand's target market is not sufficiently different from the core brand. Moreover, if a vertical brand stretch (like any other brand extension) is not successful, it can also hurt the equity of the core brand. There is also the chance that consumers might get confused or frustrated if it becomes no longer clear which product version is "the right one" for them.

In order to avoid these pitfalls, there are a couple of questions that must be asked before a brand is stretched. Prior to expanding into higher or lower market segments, the market opportunity needs to be verified. How large are the relevant middle segments? How tough is the competition? What are the main customer requirements and trends? And most importantly, how large or small are the expected margins? Another critical factor that needs to be checked prior to the action is the manufacturing and organizational cost structure and the company's ability to adapt. In our experience, this is the trickiest point. Many global corporations are excelling in the design of complex, high-performance products. However, given their engineering and quality optimization mindset, they struggle to make things less complex, less high-end and less costly. Reacquiring the strategic flexibility to "unlearn" and reinvent relevant parts of a business model is an important component of building a strong and sustainable position in the BRIC's growing middle market segments.

8.14 Introducing Separate Brands for Separate Markets

In order to increase sales, many international companies build a differentiated brand portfolio in the BRICs that consists of an upper-market brand and separate middle market or low-end brands. This multi-brand strategy is most commonly found in the consumer goods category and has proven to be very effective if managed properly. In countries like China, where government rules require automotive joint ventures to develop homegrown brands if they want to build new production plants, companies may sometimes be faced with the regulatory necessity of developing additional brands.

In January 2013, Volkswagen development chief Ulrich Hackenberg revealed that the Wolfsburg-based car manufacturer was looking at building its first low-cost car in China as a separate brand together with one of its two Chinese joint venture partners. In March 2013, Chinese joint venture partners BMW and Brilliance confirmed news reports about a creation of a joint sub-brand with the Chinese name *"Zhi Nuo," (in English ZINORO)* which can be translated as "The Promise." For BMW the new brand is part of its expansion plan for the local market and a further step towards gaining permission for its second joint venture factory in Shenyang. U.S. manufacturer Ford revealed that it will develop a new brand together with its joint venture partners Mazda and Chang'an Motors. Ford has set ambitious sales targets and wants 60–70 % of its global revenue growth to come from the Asia-Pacific region and Africa. Hyundai has announced its own *Mistra* sedan sub-brand, a China-only model which fits between the small- and mid-size automobile segments. And Kia revealed its new brand for the Chinese market named *Horki*, which is derived from the Mandarin characters signifying China and driving. This way, the years 2015 and 2016 might well turn out to be the years of the new brands for the Chinese market.

Unilever in Brazil is taking advantage of the middle market opportunity in the laundry products business by positioning itself with OMO as a premium brand and ALA as a brand specifically developed for the lower and middle income segments that reside mainly in the Brazilian northeast. The internal campaign jargon for the region-specific extension shown in Fig. 8.53 was "Project Everyman." The product

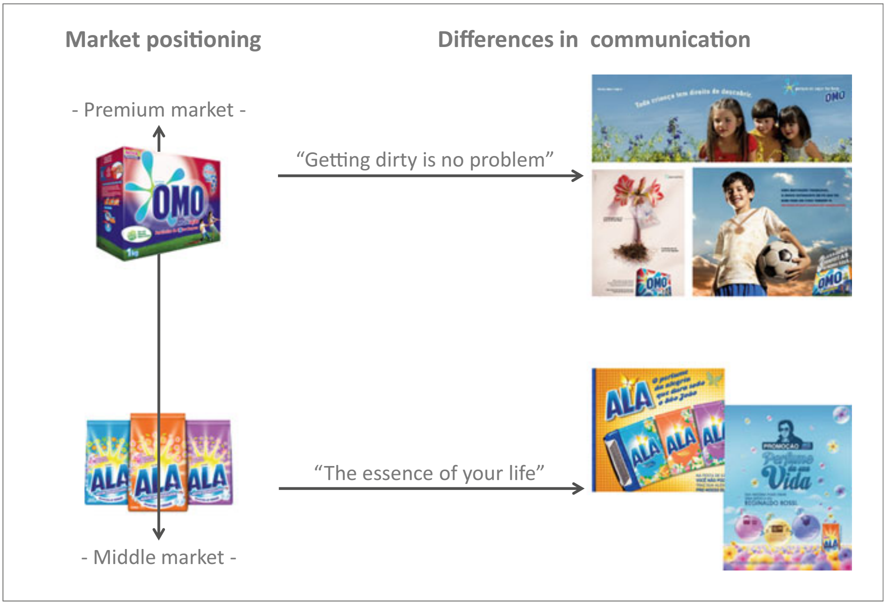
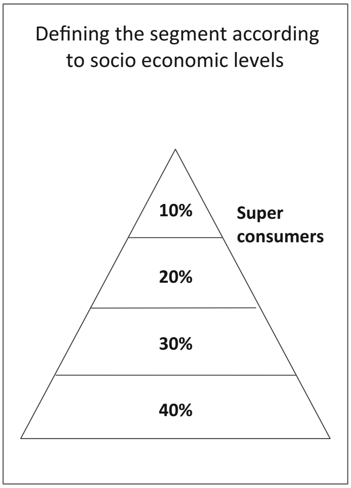


Fig. 8.53 Example for using the middle market opportunity by building a sub-brand. *Source*: globeone with images from Unilever Brazil

adjustments for ALA are designed to better meet the needs of lower-income consumers. Adjustments include small plastic bags instead of the standard three kilogram OMO box, different scents like lavender, which promises luck in the local culture and attracts men, as well as an easy-to-identify package because of the low literacy rates in the region.

In the decade leading up to 2007, Unilever had managed to gain an 81 % market share in the Brazilian detergent powder category by developing its portfolio from OMO (premium brand) to Minera (powder and laundry soap) down to Campeiro (the cheapest powder brand). Before Unilever started its push into the northeast, it had carefully researched the local demographics. 48 million low-income consumers lived in the northeast, comprising 28 % of Brazil's total population. Usage patterns were easy to detect: Clothes were washed frequently as individuals owned fewer articles of clothing per person, and people usually utilized public laundries or ponds, where they could meet and chat with their friends. The advance into this rural market offered the chance to gain momentum, profit from a first-mover advantage and become a leader in low-income consumer marketing.

In India, Unilever stretches its toilet soap brand portfolio by targeting the top socio-economic groups (top 30 % incomes) with the brand Dove, while using the separate LUX brand to reach the middle-income levels and the Lifebuoy brand to reach the bottom tier of the income pyramid. For large consumer goods companies that are operating in the BRIC markets it is becoming popular to develop a differentiated brand portfolio that covers all income levels, from detergents, soaps and shampoos to skin care and tooth paste. The logic of this approach is reflected in Fig. 8.54.



Socio-economic group	DOVE	LUX	Lifebuoy
Level 1 Top 10%	17%	11%	8%
Level 2 Next 20%	25%	20%	19%
Level 3 Next 30%	31%	30%	31%
Level 4 Next 40%	27%	39%	42%

Fig. 8.54 Using the middle market opportunity: Illustrative portfolio stretching example from Unilever toilet soap brands in India that shows market shares at different social-economic levels of the market

Fig. 8.55 Using the huge middle market opportunity by portfolio stretching. Example of Ariel versus Tide in China. *Source*: globeone 2014 with product visuals from P&G China

The consumer goods giant P&G follows a similar strategy of portfolio stretching in the Chinese detergent market to realize its full sales potential. Figure 8.55 shows this example with the brands Ariel and Tide. P&G's flagship laundry brand Ariel is positioned in the premium segment, whereas Tide is targeted at the mass market. In order to achieve a sufficient differentiation between both brands, P&G relies on two testimonials that could not be more different. For Ariel, P&G hired the famous Taiwanese singer, actress and TV host Xu Xidi. Having a reputation for being quick-witted and cocky, she is especially appealing to modern urban Chinese consumers. Ariel TV commercials starring Xu Xidi often have a playful tone and rely on her humorous character. Phrases like "Five star cleanliness" further underline the brand's premium positioning. Tide on the other hand is endorsed by the Chinese TV star Hai Qing. She has an image of being everybody's darling and is famous for her numerous roles in Chinese soap operas. By cooperating with Hai Qing, Tide reaches out to the more conservative mass market. As a brand ambassador for Tide, she gives cooking classes and shares household tips at events and on social media. Campaigns often show her in traditional life settings connecting with mothers and kids. P&G's product policy reflects the positioning of both brands. Ariel's packaging sizes are much smaller than Tide's, while price levels are similar. This makes Ariel the ideal product for Chinese consumers who find large package sizes inconvenient and focus on quality, while Tide is the preferred choice of more price-sensitive consumers.

8.15 Leveraging Through Horizontal Brand Stretching

Offering many products with different competences under the same brand name has become very popular in recent years. Xerox extended its brand equity from copiers to computers. General Electric put its name on financial services. We can now even book our rooms in Versace luxury hotels, or surf the web on Ferrari laptops. We can even wear shoes or watches from Caterpillar, Porsche or Jeep.

This horizontal stretching of brands across very different areas of expertise has also become a popular strategy in emerging markets because it speeds up time to market, reduces costs and increases the leverage of well-known brand names in fast-growing new categories. One of the main drivers for the more extensive use of a single brand across different application areas or even industries is the fact that building brands and distribution in very large countries like Russia, China, India or Brazil is an extremely costly exercise. In many cases, corporations shy away from pouring additional investment into a second brand unless there is a very strong strategic consideration behind.

Moreover, consumers in countries like China and India are usually less experienced with brands than consumers in developed markets—especially when it comes to Western brands. Consequently, the actual specific competence of a brand is usually not as thoroughly learned and firmly stored in their memory. Therefore, people are more flexible and do not define the competence of a brand as narrowly as someone who has used a certain brand over 20 years. For example, a man who has used Heinz Ketchup for 30 years will find it more difficult to accept frozen Pizza from Heinz while a 20-year-old Indian might readily accept almost any product innovation from Heinz in the food category.

There also is further scientific evidence for this. Research has shown that Chinese consumers usually trust better-known brands, primarily because the latter help assuage concerns over product quality and safety. According to the study, 35 % of respondents in China believed that companies that market products across a range of categories are more trustworthy than those that focus on just one or two segments. That's almost twice the number of Americans (18 %) or British (13 %) who feel the same way (Magni and Atsmon 2012). This enables companies to implement more extreme brand stretches in these markets. Maybe this is why Coca-Cola introduced a new casual clothing line targeting young and trendy consumers during the Rio de Janeiro fashion week. The beverage company, trying to leverage its position as the world's most valuable brand, had asked Brazilian designer Thais Rossiter to create an eclectic mix of retro, sporty and urban designs full of graphic and floral prints. The collection stretched from glitzy dresses to nylon shorts and featured the Coca-Cola trademark on its pieces.

Hangzhou-based Wahaha is also a great example of a horizontal brand stretch. Wahaha is known as the largest beverage enterprise in China. The company was launched in 1987 on a tricycle, according to its website, with the sale of ice cream, soft drinks and exercise notebooks. In the second year, Wahaha expanded its product portfolio to include pollen oral tonic. Its nutrition liquids for children with Chinese herbal medicine were very popular in the 1980s. During the 1990s, the brand stretched into children's dairy and mineral water products. And the following decade, Wahaha entered the children's clothing, instant noodles and milk powder markets, and even added beer to its portfolio.

China's largest electrical appliance manufacturer, Haier, also stretched its brand from refrigerators, their core product, to televisions, water heaters, mobile phones and even computers. This horizontal stretching exercise has also been referred to as an example of over-stretch. However, stretching obviously did not hurt too much as Haier today still is the No. 1 white goods manufacturer in the world. Yanjing beer used its brand name to expand into the soy sauce market. Tong Ren Tang, the most famous and time-honored Chinese brand in traditional medicine, stretched into cosmetics and whitening protective beauty lotions.

Another telling example is Master Kang, the leading and most famous instant noodle brand in mainland China. Master Kang started as a small cooking-oil venture in Changhua and almost lost all its capital when the brothers, who owned the company, chose a bad location from which to break new ground and profit from China's reforms. But in 1992, they launched their instant noddle business and managed a meteoric rise after countless tastings and recipe changes. Ten years after the launch, Master Kang became the leader in the instant noodle market in China. In early 2014, Master Kang was even awarded the No. 1 position in the first "Best Brands China Award" by the leading German advertising agency Serviceplan and the market researchers of GFK (Serviceplan 2014).

Since the beginning, Master Kang has managed to expand from its instant noodle soup business into the bakery and beverages categories, climbing to top spots in the ready-to-drink tea and biscuit categories. One of the prime strengths of Master Kang is its innovative drive. In the instant noddle category the company developed a range of almost 300 flavors, among them braised beef, hot and spicy, shrimp and pickles. The company expanded its sales of new flavors step by step, pushing forward only after they were successful in one region. In the tea business, Master Kang created an even yet wide range of offerings, including green tea, jasmine tea and a barley-flavored tea that became very successful thanks to its healthy ingredients and natural and unconventional taste. The company also ventured into the fruit and vegetable juice business.

8.16 Stronger Use of Corporate Brands

Which brand architecture can help an enterprise to grow in the fastest and in the most profitable way? This depends, of course, on the circumstances in the target market, as well as the company's specific brand status in this market. A company needs to choose the strategy that fits best. If your corporate brand, usually the company name, is already strong in terms of awareness and enjoys a strong reputation or a major COO bonus, it makes sense to make better use of this asset. There are two major ways to do this: Following a strict branded house strategy or using a house of brands strategy in combination with a strong endorsement of the corporate brand.

A branded house is a brand strategy in which the corporate brand itself is dominantly used to brand the different products or product lines. This strategy is very common in the B2B sector or in industries like consumer electronics, where Apple, Samsung and Sony give individual products (like the iPhone or the Galaxy) their own identification but closely link them to the company's overall brand. In the B2B sector, the global logistics provider FedEx is an excellent example of this approach. It brands its different business segments as variations of the corporate brand such as "FedEx Express," "FedEx Ground," "FedEx Freight" or "FedEx Services."

Alternately, in a house of brands, different product lines or business segments enjoy their own unique brand identity and positioning, while the corporate brand does not play a role at all. P&G is a good example of this approach, as dozens of its brands (e.g., Pampers, Duracell, Gillette and Tide) use strictly separate brand identities. However, especially in emerging markets, you will find that these separated brands still enjoy an endorsement from P&G, which supports them with an additional boost in terms of quality and trust. Both strategies are shown in Fig. 8.56.

A branded house strategy brings together multiple products under the umbrella of a single, strong brand. Try to see the corporate brand as a warehouse that releases many different products. The major advantage is clear; individual products from the same company can leverage the high recognition of the corporate brand. The strategy makes sense for companies of all sizes, especially in B2B. And the synergies generated between the different units of the company can help strengthen each individual unit. As a consequence, the whole is stronger than the sum of its parts. In the branded house strategy every unit or brand shares the same vision and values. While this requires a closer cooperation between headquarters and the different business units, it offers the chance to increase customer loyalty, because it is more likely that consumers are attracted to the overall brand. Meanwhile, in a house of brands, the customer loyalty is tied to individual brands that are carefully tailored to the specific emotional and functional needs of the target group.

But an important geographic distinction must be made. Historically, in the West, consumer product companies are usually run as houses of brands, where each brand was managed and marketed separately. The corporate brand itself is traditionally

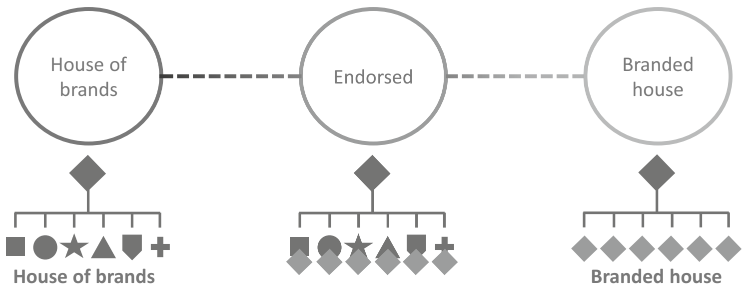


Fig. 8.56 Visualization of alternative brand architecture strategies. *Source*: Esch (2002)

not featured so much. To most consumers, the stand-alone brands are much better known than their corporate umbrella brand. However, in emerging growth markets the branded house approach appears to be more commonly used.

P&G and Unilever, for example, extensively use their corporate brands in major growth markets. Brand awareness for P&G itself is high in these markets (e.g., reportedly in China at a level of above 70 %) while in Europe, for example, consumers usually don't recognize the corporate brand behind. However, in many cases it is not easy to apply a strong branded house strategy, as many global corporations have to operate as joint ventures in some markets. This increases organizational complexity and constrains the brand strategy. In China, for example, the complex structure of the local automotive industry considerably lowers brand visibility as well as the feasibility of brand strategies. Consumers themselves do not really care about the different joint venture brands; they care about "their" BMW or Volkswagen. And it makes a big difference for them if a car is imported or manufactured locally. This is the reason why, externally, many competing brands have managed a relatively seamless integration of their joint venture partners under the overall global corporate brand umbrella. Volkswagen—like other foreign car companies—still faces barriers doing that. But it recently made major progress with its unified online brand portal where consumers can, for the first time, find all Volkswagen products in China in one spot, no matter if they are imports, Shanghai Volkswagens or vehicles manufactured by FAW-Volkswagen, the joint venture between Volkswagen and First Automotive Works.

The trend towards the stronger use of corporate brands is supported by growing competition in the growth markets and increasingly high advertising media costs. This forces companies to enhance their visibility and brand strength in a faster and more cost-efficient way. Of course, a single (corporate) brand can achieve this strength more quickly than a portfolio of differentiated brands. As there are still many poor quality products in emerging markets and average consumers are more concerned about reputation and "brand origin" rather than specific positioning, there are clear reasons why the corporate brand plays a much more dominant role in a growth market context.

8.17 Flooding the Category

As shown in the country profiles of this book, one of the commonalities in the BRICs is that the middle classes and related mid-priced market segments are growing in line with their rapidly rising incomes. In order to gain a larger market share in a given product category, an increasing number of companies is using a "category flooding" strategy. They try to appeal to different target groups at the *same* level of the income pyramid as well as *different* levels of the income pyramid. Putting more than one brand into the same category allows them to generate a higher market share, as it usually proves difficult to expand the market share of a single brand beyond a certain level. The main reason for this natural "ceiling effect" is that consumers have different psychological needs and expectations vis-à-vis their preferred brand. As brands also have a personality, naturally there are also many people who do not bond with a certain brand. Therefore, it can sometimes be advisable to build several brands targeted at the same market and satisfying the same functional need, but with a varied brand personality profile or different brand focus. This strategy is specifically common in fast-growing consumer goods markets where financially strong global champions like P&G, Unilever or Pepsi Foods fight for market leadership. The ultimate goal of category flooding is to achieve such a dominant role in a specific market that the consumer can hardly get around the brands of the company. Even if they reject a certain brand, they are likely to buy an unrelated sister brand without knowing the same corporation is behind it. Of course, category flooding also happens at different price points. This allows enterprises to target more affluent consumers with a premium brand, and, at the same time, attract middle or mass market customers with regular or budget brands.

As mentioned already in the brand revitalization chapter Coca-Cola is operating "Thums Up" in India as a major local cola brand with local taste. Strategically, Thums Up is focusing more on traditional consumers in the country while Coca-Cola itself is focusing on more modern consumers. In the more traditional and lower income segments, Coca-Cola also offers drinks such as Minute Maid, which comes with a Guava flavor and a "Made with Nature" promise to promote healthy lifestyles. In order to appeal to less affluent consumers, the Minute Maid is also available in a small 200 ml Tetra Pack option, which is priced at less than a quarter of the larger pack. Minute Maid Guava was first made available in select towns in Punjab, Delhi, Uttar Pradesh and Kolkata.

Category flooding can also be seen at work in the toilet soap category, where Unilever offers Liril and Dove in the premium sector, Lux as a mid-range brand, and Lifebuoy in the budget segment. With this approach, Unilever has become the market leader in this category in India and achieved similar success in the laundry detergent category.

In the Brazilian household appliance category it becomes clear that the acquisition of local competitors—and their addition to the existing portfolio—is a common strategy. Two major groups, U.S.-based Whirlpool and Mexican company Mabe now control more than 60 % of the Brazilian market. Whirlpool has taken over local brands Brastemp (a white goods market leader since 1973) and Consul, the first Brazilian refrigerator brand. Both local companies had merged in the early 1990s to form Multibras. Under Whirlpool's leadership, Brastemp and Consul fundamentally changed their corporate culture. They became much more customer-oriented and innovative, and now operate as an integral part of a global Whirlpool Corporation. In an increasingly competitive Brazilian market environment, where companies like Bosch, Electrolux and GE have bought local manufacturers in recent years, Consul and Brastemp allow Whirlpool to "flood" the category and succeed even in a weakened economic climate. Consul is the portfolio's mid-line brand, while Brastemp is the premium brand. Brastemp is marketed with quality and innovation as its main attributes, while Consul is advertised as "part of your home," with messaging that focuses on simplicity and functionality.

In Russia, category flooding works in a similar way. Several companies are promoting two different kinds of brands. The first kind is more traditional and usually features a Russian name and packaging that looks distinctly “Soviet.” These more traditional brands are targeted at older people who spent much of their lives under a communist regime and nowadays have a lower income and social status. Examples include Unilever’s Beseda tea brand and P&G’s Mif detergent. The second kind of brand tends to be more “international” and “innovative,” and is often a well-known international brand, like Unilever’s Lipton, or P&G’s Tide. At present, in Russia one customer segment is young, professional and educated, with a rising income and a tendency towards high consumer activity and striving for social status. This target group has a distinct preference for well-known foreign quality brands. The other customer segment is older, much less brand-driven, and less sophisticated. Consequently, flooding the category with brands for both groups is the best response to this bifurcated market.

8.18 “Experientialization”: Designing Communication that Changes Behavior

Transitional economies are in constant flux. Incomes are rising, the retail landscape is becoming more organized, and young entrepreneurs and professionals are striving to show off their success. There are millions of new customers for almost every product category. At the same time, however, there are also hundreds and thousands of new brands competing for attention. In an environment where the fight for share of voice is particularly intense, it is difficult to build a brand and attract customers to try a product for the first time without anyone having any first-hand experience. In such a context, it is crucial to skillfully design experiences and activities in order to engage in a dialogue with customers in a targeted way and to induce behavioral change in consumption—especially in the fast paced growth market environment. The challenge is winning over existing consumers to products and brands they are neither familiar with nor interested in.

The basic idea of experiential marketing is not to sell something, but to demonstrate how a brand can enrich a customer’s life. It is broadly defined as a form of customer-focused marketing activity at various touch points to create a sensory-emotional connection to target customers.

Experience marketing is certainly not new to developed markets. However, this concept is uniquely relevant to emerging markets. And this is not only true for high-end premium markets but also at nearly every level of the market—from luxury brands that are trying to win attention through top premium events at the Sugar Loaf in Brazil and fashion shows at the Great Wall of China all the way down to product trials or tastings at the local supermarket in Mumbai or St. Petersburg.

There are many different examples of how to allow the consumer to experience a formerly unknown product through a unique experience:

- Brand experience centers (e.g., the BMW & Mini experience center at the EXPO in Shanghai)
- A fashion show or exclusive launch event (e.g., a Fendi fashion show at the Great Wall)
- Shopping mall displays (e.g., half-naked models that pose in Calvin Klein Jeans and invite consumers to take pictures)
- Guided test-drive events (e.g., a driver academy at the Land Rover off-road experience center)
- Product trials in super markets (e.g., a French wine week event at Carrefour)
- Special promotions at famous restaurants or night clubs (e.g., promotions for Budweiser performed by hostesses in branded uniforms)
- Showrooms that allow people to feel and experience the products first hand (e.g., design furniture stores that allow consumers to lie down and even take a nap in the middle of the exhibition)
- Digital tools that use 3D visualizations, movies or augmented reality in order to give the consumer a deep sensory impression (e.g., VWs 3D Brand World)
- A museum or brand academy (e.g., a Mercedes-Benz Museum)
- Customer conferences, events and exhibitions that signal “thought leadership” and enable first-hand interaction with strategic customer groups (e.g., the “Mobility Days” conferences by world-leading synthetic rubber manufacturer LANXESS as platform to interact with the automotive industry)
- “Tech Days” that usually take place at the local site or plant of an important customer in order to familiarize the engineers and management of the customer with latest solutions (e.g., a leading packaging manufacturer that demonstrates latest innovations at a plant of a processed food conglomerate)

Inducing behavioral change is a big challenge for large beauty companies like L’Oréal. The world’s largest cosmetics company faced headwinds in Brazil, where customers traditionally buy skin creams and mascaras from door-to-door sales representatives. This kind of vending is a longstanding tradition in Brazil. An estimated 2.5 million women earn a living from direct sales. But L’Oréal relies on high-end shops to sell its products. The French company’s goal is to double its global clientele, which means adding one billion customers over the next decade. Brazil, which is close to overtaking Japan as the world’s second largest cosmetics market, is a key part of this expansion plan. In order to be successful and reach its goal in Brazil, L’Oréal needed to motivate Brazilians to alter their buying habits and purchase more beauty products in organized retail stores.

This conversion has already begun. Chained pharmacies and drugstores, for example, have made significant inroads into the direct sales business in recent years. The growing consumption is fueled by higher incomes and the subsequent rise of the middle class, particularly among Brazil’s ultra-young population. People under 25 are prime consumers of cosmetics. In order to deliver a more sensory-emotional experience and to attract more customers, the company has started to introduce the concept of “personal beauty advisers” at department stores in the country. These advisors are helping L’Oréal to bring consumers directly in touch with the products and deliver a warm and personalized experience. A similar concept is applied to pharmacies that selling L’Oréal products. In essence, the challenge is to create a retail makeup business from scratch and to completely change the way Brazilian women purchase these products. Indeed, it is not just the purchase behavior that is different: Market researchers at L’Oréal have found out that half of all women in Brazil smell their own hair at least once a day, and they touch their hair much more often than European women. This dedication to texture and scent makes Brazil not only the perfect place to utilize experiential marketing techniques but also a prime testing ground for new products.

But it would be misleading to assume that experience marketing is an approach that is primarily relevant in a business-to-consumer context. The opposite is the case. There are many examples where such an approach proved to be very valuable in a business-to-business context as well. When in 2004 Bayer spun-off its special chemicals and rubber related business in a new unit called LANXESS, few people were familiar with the new name and company. The challenge was to create awareness and to deeply connect the company with relevant customers and stakeholders in key markets such as China, India and Brazil. The following case highlights how LANXESS managed to position firmly in its core segments across the key growth markets.

Case Study: LANXESS Mobility Days as Positioning and Customer Activation Platform Across the BRICs

Company/Brand: LANXESS AG
Category: Industrial goods
Countries: BRIC

Situation: The German specialty chemicals company LANXESS wanted to grow business unit sales and drive overall business performance in the BRICs. In order to develop a better market access and to activate its target groups, the company wanted to enter into dialogue with important stakeholders and increase its brand and product awareness.

Strategy: LANXESS developed a global concept for B2B positioning platforms that was locally rolled out in the BRICs and aimed at activating the right stakeholders across these key markets. The platforms acted as strategic brand shapers that increased brand awareness and profile in the respective countries. They were also designed to generated specific business leads and cooperation opportunities with suitable institutions and partners, ensuring short and long-term business impact.

Concept description: LANXESS created an event platform to discuss latest developments and exchange views with customers, potential customers and other key stakeholders while presenting its innovative solutions. LANXESS established these conferences in three different formats—

(continued)

Mobility Day (cross-industry thought leadership platform with focus on the megatrend mobility), Automotive Day (a more industry-driven event with focus on the automotive and tire industry), and Rubber Day (more focused and product-driven event format)—to ensure cutting-edge topics of vital interest to all attendees. Professional guest and stakeholder management guaranteed the participation of high-level industry experts, top business executives, prominent academics, high-ranking officials, and policy makers in the forums (see the following figures). An integrated communications approach leveraged the events internally and externally via different channels and guaranteed maximum impact also for the corporation's other country organizations.

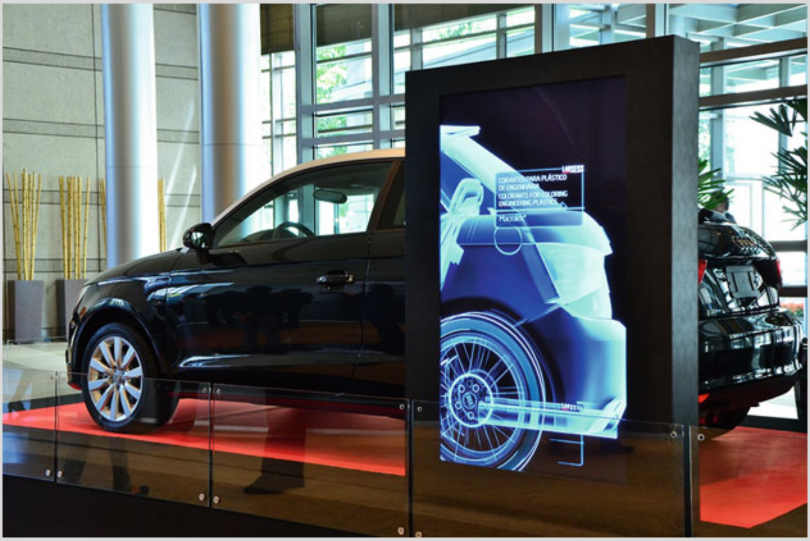
Result: The Mobility Days have been held regularly throughout the BRICs since 2010. The events have generated rising awareness among industry leaders, politicians, high officials, and the specialized press. LANXESS was able to position as premium development partner and solution provider for the mobility industries in the BRICs. The feedback from the events' participants reflects the success of the format: 94 % of customers said they will attend LANXESS events in the future and 85 % felt that the event met their expectations. In addition, the example of the Automotive Day Brazil in 2011 highlights the business impact of the events: 93 % of participants stated they acquired new knowledge on mobility topics and 80 % said the event had an impact on their purchase intentions. The conferences also improved identification and motivation among employees throughout the company by making complex products and solutions more tangible. Overall, the Mobility Day concept served as springboard for a strategic multi-level marketing approach aiming at entering into direct contact with automotive OEMs.

(continued)

Impression from a LANXESS Mobility Day thought leadership event platform in Brazil. *Source*: LANXESS (2013)

Impression from a LANXESS Tech Day format to inform relevant target groups in China, India and Brazil about latest innovations and their industrial applications. *Source*: LANXESS (2013)

(continued)



The LANXESS car scanner—impression of an exhibit that illustrates LANXESS' solutions for the automotive industry by highlighting which parts of the vehicle contain materials from LANXESS. *Source:* LANXESS (2013)

8.19 Premium for Everyone

China's growth is slowing, as we know, but the country's income level is still on the rise. This is why expanding to the middle markets—as described in this strategy chapter—is not the only reasonable and promising strategy in order to tap additional buying power in the large emerging markets. There is an interesting counter movement, called premiumization. Tens of millions of consumers in the large growth countries are trading up, opting for a growing number of premium goods, leading to a premiumization in a number of product categories. Barilla, one of the market leaders in the global pasta industry, reports that premiumization is already driving pasta growth in emerging markets.

Premiumization is a general market phenomenon. It is not restricted to the existing premium markets. According to several leading market intelligence companies it is an overall and nationwide phenomenon in China, India and Brazil, but less so in Russia where consumers have started to save on their purchases or are scaling back on spending in general after the start of Western sanctions in 2014.

The expanding middle class is not the only driver of the advancing premiumization. In China, for example, the ongoing economic reforms aiming at a rising purchasing power in the inland provinces are redistributing wealth to lower tier cities. As a consequence, consumer confidence is rising almost everywhere. The result: Premium products are not just for the wealthy anymore. There is hard and reliable evidence to confirm this trend. In 2012, for example, already more than half of FMCG sales growth in the People's Republic came from premium products in categories like biscuits, tooth paste, skin moisturizers or milk.

The story is similar in Brazil, which is a focal point in Diageo's global strategy. The world's largest alcoholic beverage company, according to its website, aims at moving 50 % of its business to the emerging markets, with Latin America being expected to deliver a significant share of the targeted growth. The region already contributes close to 12 % of Diageo's total net sales. Brazil contributes around a quarter of the company's organic net sales in Latin America. In India the latest examples of premiumization come from the market for frozen foods, which has been growing at about 20 % per year for some time. The Hindu Business Line reported in November 2014, that the retail segment of the market used to be largely frozen vegetables like peas and sweet corn. But only until the end of the last decade. Since then snacks such as chicken sausages, french fries and other potato products have become very popular. Interestingly, the new segment taking off so fast can be termed "gourmet foods" with products such as pork and seafood, as well as chicken-based fine foods.

When a growing number of consumers buy more of what they want, instead of what they need, quality becomes more important. A recent survey by the Hong Kong Trade Development Council among 1600 middle class consumers in eight Chinese cities revealed that 76 % give first priority to quality when they decide to purchase a product. More than that: After a series of horrifying milk and meat scandals as well as distressing news about poisonous toys, Chinese consumers have started to focus more on health and natural ingredients. A rising number of companies are starting to successfully build on this trend of prioritizing quality over cost savings. Whether it is cars, jewelry, dairy or diapers: The strong display quality of premium goods helps status-concerned newly-affluent Chinese consumers to demonstrate to their peers what they have already achieved. Gender plays a role as well. In China, the comparatively high percentage of women in the workforce is reinforcing premiumization. Educated young women have turned out to play an important role driving consumption of premium goods, especially in categories like health and beauty.

8.20 Avoiding the Brand Schizophrenia Dilemma

In 2012, BMW China presented its entry model SUV X1 in a Chinese newspaper advertisement as "German Heritage, Born in China." The message was a reflection of the German brand's strong commitment to and massive investment in developing and producing vehicles in China. But how do consumers perceive this message in terms of origin and identity? Is the X1 still a German car? Or is it already something that is more Chinese? What is the Chinese consumers' sense of the brand's distinct overarching identity? Luckily, there is no confusion about the personality, roots and origin of the "ultimate driving machine." After all, it is one of the most successful global car brands and an astonishing number of people in China are well aware of its country of origin. One of the common things about great brands is that everyone knows exactly what to expect from them in terms of their promise, performance, delivery and packaging, among other key brand elements.

But what happens if foreign investors, just like German car makers in China, become so committed and entangled with their activities and development in the BRICs that local consumers start to wonder? Do Chinese consumers still accept Germany as the brand's home market? Is it still easy for the car makers—or heavily invested manufacturers in other industries—to explain the difference between imports into China or India versus locally manufactured products? What about the "political" challenge? How can the brand be aligned with differing national interests? Does Daimler CEO Dieter Zetsche present new models from Chinese assembly lines together with the Chinese Prime Minister at the Auto Shanghai or with the German Chancellor Merkel at Frankfurt's IAA? Is it high-tech made in China, or high-tech made in Germany? The caricature in Fig. 8.57 nicely visualizes this common CEO dilemma.

This question is more than theoretical. Take Volkswagen, for example. After years of heavy investments in overseas production, today only one of five cars rolls off of the VW group's assembly lines in Germany. In Asia, on the contrary, Volkswagen churns out almost a third of its worldwide production. Europe's leading car manufacturer has increased its headcount in Asia by 134 % over the last 4 years. So Europe's share in VW's annual production is rapidly decreasing. The share of its home country, Germany, in global production of the Wolfsburg-based car group was reduced by half –from 34 % in 2008 to 17 % in 2012. During that time, Asia's share of global production rose from 16 to 29 %. Volkswagen CEO Martin Winterkorn highlighted this rapid international expansion already when he

Fig. 8.57 Avoiding brand schizophrenia: the rapid rise of China and other emerging markets creates complexities for the self-conception—not only for Daimler CEO Dieter Zetsche. *Source*: Oliver Sebel/Frankfurter Allgemeine Zeitung, April 28 (2012)

presented the group's annual report back in March 2012. "The future of Volkswagen," he explained, "is increasingly decided in China, Russia, India, America and Southeast Asia." VW, according to Winterkorn, has become "a lot more Chinese, American, Russian and Brazilian."

There is a potential risk that consumers might become confused, brand equity can be lost, and the brand image gets diffused. So the attempt to leverage on the country of origin effect, while simultaneously stressing the local production and development of a product can be a stressful—and risky—high-wire act, for managers and marketers alike. Consumers, after all, have a harder time relating to a schizophrenic brand. Recent corporate history is littered with cases where even powerful brands had to undertake damage control because they suffered some kind of personality disorder. Halfway through the last decade, General Motors had to narrow its selection of cars because its brand personality became fuzzy after consumers started to wonder what was the difference between a Chevrolet, a Pontiac, and a Buick.

Brand schizophrenia can strike when the leadership of a company changes and there is institutional drift. It can also happen when line extensions become too aggressive. But schizophrenia also looms when manufacturing and R&D migrate to new markets in a massive way. While there are different ways to escape from this predicament, there still is no substantial academic proof of which escape strategy works best and whether any of these strategies are sustainable in the longer term.

Consumers still care a great deal about whether a car is imported or locally made. Therefore, the first strategy is something we call the "*purity strategy*." It entails a brand deciding against manufacturing all or most of its premium products outside of developed markets, say the United States, Japan or Germany. Keeping the brand and its design and manufacturing base strictly related to a certain COO helps to prevent the brand from damaging its image and losing its pricing potential. For example, Italian sports car makers, French perfume creators or Swiss watch manufacturers are usually well-advised to keep their manufacturing base at home. Once a corporation decides to actually move substantial parts of its manufacturing or research and design capacities into an emerging market, the situation becomes more complex.

A second "*disguising strategy*" is followed if communication about local production in the emerging market is avoided at all cost and the home country of the brand is highlighted intensively through frequent references (e.g., "Made in Downtown L.A." or "Designed in California," etc.). Through this approach, corporations are striving to strongly emphasize that research, development, design, concept and quality standards are all on the level of the original home country and completely separated from the local market—even through assembly may be conducted in the local market.

A third "*balance strategy*" entails local manufacture being communicated in a balanced way together with specific (foreign) origin of the brand. This kind of approach is more common if a brand is extremely active in a local market and has already established a deep footprint. As a result, it is no longer possible to disguise the fact that the brand does have a major local production base. In some countries, such an approach is also followed when it is necessary to respond to government requests to show more local responsibility. If a brand comes across as too foreign and appears to only be selling (and thus exploiting) in the local market, local governments tend to push the company to assume more local commitment in the form of local R&D or sourcing more materials from local manufacturers. However, even while implementing this balance strategy, the foreign corporation will still work to strongly reinforce the international origin of its brand and the fact that home market quality standards are applied to local production as a means of countering the perception that the brand has become too local. In the German automotive industry, the new mantra is clearly “German quality is German quality, no matter where in the world the car has been produced.” So far, this has worked reasonably well. However, we will see what happens when the first “Made in China” premium car models from German manufacturers hit German markets in the years to come.

To prove the new mantra, many corporations provide additional “reasons to believe”. For example, a German consumer durables manufacturer is highlighting the much heavier weight of its products as compared to the makes of Asian competitors to reinforce the German quality standard, despite the fact that its products were made in Eastern Europe. Interestingly, Asian consumers were very particular about buying products that were made in Germany, as opposed to products made in Slovakia.

Finally, it is also possible to adopt a complete “localization strategy” from a communications point of view. This approach focuses on local production and avoids any reference to the foreign origin of the brand. As foreign origin in most markets still means premium perception and pricing power, such a strategy is not often employed. It is most commonly found in mass market and other categories that are closely related to local culture, such as food, drinks or any kind of fast moving consumer good. However, the first—and probably strongest—line of defense is to stay alert to this looming schizophrenia challenge when it is time to seriously expand into the large growth markets.

8.21 Digitalization: The Age of Tweets, Likes and Uploads

People in BRICs and other emerging markets tweet, like, upload, download, create and share untold amounts of information in the digital sphere every day. They not only enjoy talking about their personal life but also about products, brands and companies. As consumers in the BRICs are among the most wired people on the planet, digital media has a huge impact on how they act, communicate and make purchase decisions. This interconnectivity helps cross social and economic barriers, connecting people within countries that are as vast and diverse as the whole of Europe. An additional factor has accelerated the penetration of digital and social media in countries like Russia or China: The limited freedom of the printed press means social and digital media offer a more diversified and reliable selection of perspectives and enables people to share opinions that previously had no platform

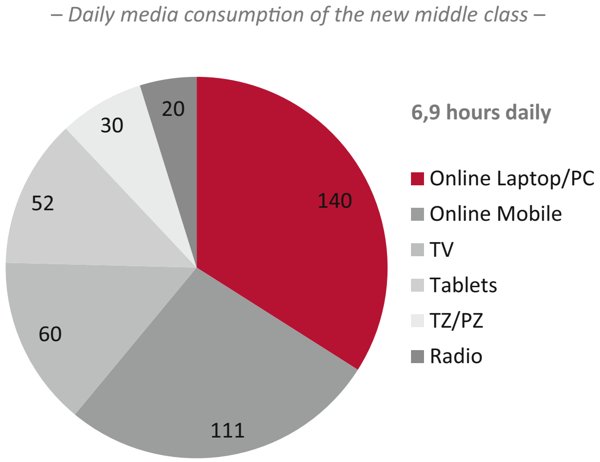


Fig. 8.58 About 75 % of media consumption in China is online. *Source:* inm BI research, October (2012)

for dissemination. Consequently, the BRICs have become the epicenter of the world's exploding digital sphere. China and India alone now boasting somewhere close to one billion Internet users. Experts estimate that between 2012 and 2015 alone, another 700 million users have gone online, enabling these markets to potentially generate as much as $80 billion in annual online sales.

Digital Media Is Key According to advertising magazine Campaign Asia, already more than half of all media consumption (57 %) is digital in Asia. In China, this share is even higher. As can be seen in Fig. 8.58, digital media clearly dominate the daily media consumption of urban Chinese.

For Chinese consumers, the Internet is the tool of choice for researching purchasing decisions. With skyrocketing prices for traditional media, it is no wonder that online advertising in China is currently booming with an annual growth rate of 37 %. China is not only on course to become the world's second-largest advertising market by 2015 but also will soon be one of only 12 countries on the planet where spending on digital advertising exceeds that spent on TV advertising. Among the different digital information tools, globeone's BRIC branding survey found that Internet search engines, social media and corporate websites are the most important tools for researching about foreign brands. Long before this whole new digital universe has even matured, it has become an immensely important aspect of doing business. China is already the world's second-largest e-tail market, with a compound annual growth rate of 120 % since 2003. China's retail sector is one of the most wired on the planet. Online retailing accounted for 6 % of total retail sales in 2012, compared to 5 % in the U.S. Online shopping also creates consumption that would otherwise not have taken place. Important advice for marketers: As always, finding the right channel of communication is critical. For example, a lot of China's Internet users when searching for a product online tend to click on Baidu first

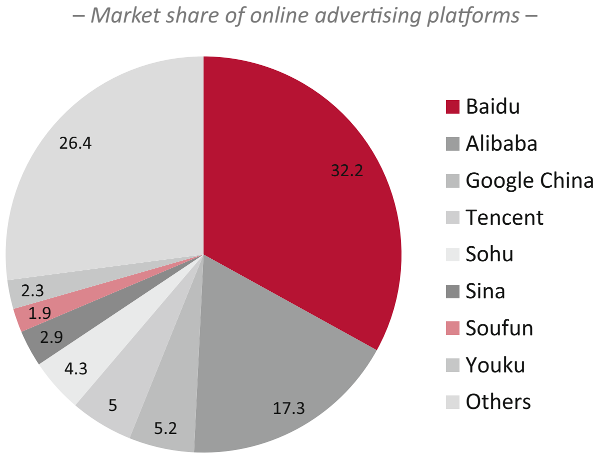


Fig. 8.59 Local players are in the lead. Market shares of online advertising platforms in China (in percent). *Source*: China Internet Watch/ Enfodesk (2014)

because this domestic competitor reflects the nuances of Mandarin Chinese much better than U.S.-based Google. In addition, since 2014 Google is very difficult to connect from China and therefore usually not the search engine of choice for most Chinese. Figure 8.59 shows the market shares of the largest players in China in terms of online advertising.

While digital media consumption is highest in Asia, Brazilians also heavily rely on online sources: Already 44 % of consumption-related research is carried out using search engines in the Latin American country. The Internet is now the leading medium to learn about foreign brands in the BRICs, and digital media is permanently changing consumer's shopping behavior. While consumers have always compared prices, looked for vouchers and hunted for bargains, this research has never been as comprehensive and easy to conduct as it is today for the digital customer. With new payment opportunities, as well as faster and simpler transactions, BRIC consumers expect brands to interact with them at all touch points of a purchase experience, online and offline. While the bandwidth and technical infrastructure in some of the BRICs might still be years behind the Western world, the high level of involvement, interaction and interest in digital media is making up for the technological backlog.

The E-commerce Imperative Using e-commerce channels takes significant pressure off of local and international brands in large countries like China and India, where opening new stores in the hinterland can cost a lot of money. U.S. high-end handbag maker Coach had stores in 47 cities in China when it started its local e-commerce site in late 2012. Only a few months later, the company was shipping its products to more than 110 cities in the country. Many Western brand companies have created e-commerce sites in China during recent years, among them Germany's Puma and fashion label Hugo Boss. According to the most recent estimates, around 40 % of e-commerce consumption in China is incremental consumption. E-tailing is allowing hundreds of thousands of Chinese to buy products that they couldn't access before, at least not easily. In the past years, Alibaba Group's business-to-consumer market place TMall (short for Taobao Mall) has become a preferred shortcut for brand owners, allowing them to easily benefit from the massive Chinese e-commerce opportunity. For some, a store at TMall is their first step into the Chinese market. The high business potential behind e-tailing in China is also illustrated by the extremely successful IPO of Alibaba Group at the New York Stock exchange in September 2014. Alibaba's initial listing price jumped about 40 % on the first day. The market valuation of $ 25 billion made it the biggest IPO ever of a tech company—even beating record holder Facebook.

Establishing an online presence creates more than opportunities, however. Western retailers often underestimate how complex and expensive it can be to distribute goods within countries like Brazil, India or China. Although India is a couple of years behind China, it is quickly catching up. Online grocery operations and the idea of ordering fruits, vegetables, rice or sugar for home delivery were once alien to most Indian consumers. But now, new online retailers like Bigbasket have garnered tens of thousands of active users between 2012 and 2014. Recent studies show how much online commerce has advanced on the subcontinent. Nearly one out of seven Indian consumers makes an online purchase every week. And nearly 20 % of them are spending more than half of their disposable income online. By late 2012, e-tailing in India was growing faster than in any other Asia Pacific market. Even the banks are in a hurry to jump on the bandwagon. Citibank has started to promote e-commerce brands in India by offering deep discount promotions for its cardholders across different product categories at certain times. A positive side-effect for Western brands is that shopping has become less restricted to domestic suppliers. All of a sudden, foreign brands are only one click away. The percentage of Chinese shoppers who made purchases directly from foreign merchants in 2012, for example, increased from 6 to 22 %. Therefore, in the past few years, many new sites have been launched that offer Chinese consumers direct access to foreign brands and products (e.g., 123haitao.com). Market researchers are forecasting further explosive growth of up to 30 % per year over the next five years for e-commerce in China.

In Russia, online shopping sites like KupiVIP.ru and travel sites like Oktogo.ru are sprouting up. The result: Funding start-ups in Russia's e-commerce sector is becoming big business. In June 2013, one of the country's hottest online fashion start-ups, Lamoda, created headlines when it received $130 million in capital funding for an e-commerce site. For foreign brand owners, a key strategic takeaway is that while companies in Europe and North America tend to create their bricks and mortar business first before they boost their online presence, businesses in the BRICs tend to develop and implement online strategies right from the beginning.

Key Decision Factors Consumers in emerging countries, especially in China and India, expect a discount if they buy online, putting pressure on profit margins. In a study on "China's Connected Consumers" by KPMG, price advantages and convenience turned out to be the most important motivators. And at 41 %, a significant share of Internet users said that unique products also motivated them to make online purchases. The study also highlighted that desktop PCs are the favored means to access online retail websites, with smartphones rapidly closing the gap (KPMG 2013).

Precisely Target Your Audience The digital middle class in the BRICs is as diverse as the whole population. Therefore, target audiences must be defined with precision. Otherwise, marketing messages are likely to lose a lot of their thrust. If market positioning is done with enough care, there are several interesting age groups and income segments waiting to be targeted. For example, Google India reported in June 2013 that there are now 60 million female internet users in the country, with most of them under the age of 35 (75 %) and nearly three out of four belonging to the top socio-economic groups (72 %). At least a third of these women are accessing the Internet every day, staying online for an average of 50 min, with one out of four using a mobile device to do so. This is a rapidly growing segment for brands across the consumer spectrum, from accessories, food and beverages to hair care, skin care and baby products.

Brazil and Russia: The Next Digital Battlegrounds Brazil has just reached an important tipping point, with more than half the population having access to the Internet. According to data provider eMarketer, a country typically experiences strong growth in e-commerce once the Internet penetration crosses the threshold of 50 %. In Brazil, online shoppers prefer items like household appliances and fashion products. Leading local players in Brazil are marketplaces like MercadoLibre and B2W, or price comparison sites like Buscape. Recent reports have indicated that with slowing growth rates in the overall economy, more consumers were attracted to better deals, driving them online in growing numbers. Cosmetics are one product group that seems to profit the most from this shift towards e-tail. In a sign that Brazil's online retail sector is taking off, the New York investment fund Tiger Global invested $520 million in the market place B2W in January 2014. The rapid expansion of Brazil's digital universe is also documented in the luxury brand sector. Local brands dominate this market because of their digital competence and their ability to make better use of online opportunities. According to the Digital IQ Index report, published by online think tank L2, in 2013 local brands took the lead with a market share of 50 %, compared to 35 % for European brands. L2 explains the rise of local luxury brands in e-commerce in Brazil is due to their Portuguese language support, their local payment options and region-specific brand messaging that resonated well with the consumers. This shows that systematic local adjustments are as important in the digital space as they are in the traditional communication channels.

Based on these numbers and developments, the BRICs have morphed into a powerful online market for brands. There are tremendous opportunities for foreign brands, provided they are aware of the local specifics and ready to be flexible and adjust to the local rules of the game.

8.22 Think Social and Co-Create

Compared to Western netizens, internet users in Asia and Latin America are generally younger, more enthusiastic about the web, rely heavily on friends' postings when looking for a product and use social media even more often. For most of them, the digital universe is an escape from crowded family homes and an affordable way to explore the world. Importantly, the internet has also become a more essential source of news and exchange than it is for their contemporaries in other parts of the world. This is partly because in countries like China and Russia, people tend to get less biased and uncensored news from digital sources than through state-controlled traditional printed publications or TV. This is a major reason why they love to share information, ideas and product recommendations with their peers, close friends and families as can be seen in Fig. 8.60.

When it comes to the commercial maturity of social media, China leads the BRICs. For many companies in these large growth markets, social media has even overtaken television as the most-used channel for marketing brands. In many cases social media has become the main driver for sales in many industries. The availability of different social channels has created the opportunity to run cross-media campaigns that greatly improve the direct interaction between brands and their customers.

Exploiting the Play Instinct Through Games and Apps Among the many successful social media campaigns worth studying are Kraft Foods' "The Chocolate Tree" in Brazil and the "Real People, Real Experiences" initiative by Ford in India. In 2010, Kraft Foods started an online campaign in Brazil as part of its effort to launch a new product aimed at competing with M&M's and Twix. The goal was to find a new placement for the well-known Bis chocolate, which now came in a handy Mini Bis format. It was the first real innovation to play with the brand's format since 1940. Among the goals of the campaign were added sales, more recognition, an entertaining presentation and a social media presence. The theme was "trust no one" because the Mini Bis was presented as an addictive sweet that could be stolen at any time by people who took part in the game. The social network Orkut was identified as a good mirror of the Brazilian society. One of the most popular

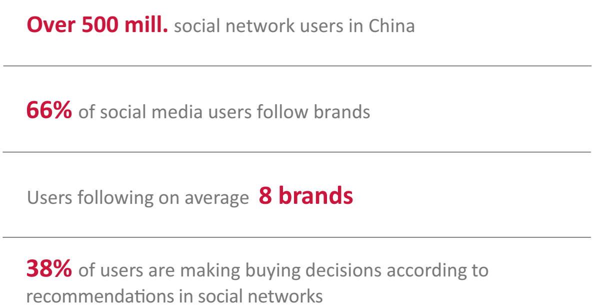


Fig. 8.60 Significance of social media in the purchase process in the BRICs—example China. *Source*: Emoderation (2014)

applications on the Orkut platform was the "Happy Harvest" game with a large online presence, high loyalty and diversity. Part of the action in this incredibly popular game was stealing crops from farmers. So the creative team designed the Chocolate Tree and sent out small blue virtual cocoa seeds in April 2010 to millions of online farmers. After they were planted, the seeds turned into small trees with blue leaves growing on it. The chocolate trees carried a lot of Mini Bis pods. If they weren't harvested quickly enough, they could be stolen by other farmers. The results were phenomenal: Over 25 million chocolate trees were planted in the first week of the campaign. A total of 100 million were reached after 4 weeks.

New Social Networks on the Rise China's WeChat is at the digital edge of social communication innovation. WeChat, developed by China's Internet giant Tencent, has about 600 million registered users, comprising 500 million users in China and more than 100 million overseas. It is one of the fastest-growing social networks in the world. In its effort to shine on the global stage, WeChat contracted the football superstar Lionel Messi to serve as its brand ambassador for selected markets in 2013. WeChat is famous for continuous innovation, pushing out new features and functions that are highly valuable not only to themselves but also as platforms for brands and business to engage with their customers. Through Nike's WeChat channel, for example, followers can send in their favorite moments in picture format. Nike then replies with a unique design of a customized Nike Free shoe, matching the color scheme of the picture provided through WeChat. The platform has developed popular features that help people to connect easier, faster and around the clock. Instead of manually entering a new number or contact info, people can literally just shake their phones and make a connection with others in their vicinity. Amazon China creatively used this feature on its WeChat channel to allow followers to "shake and win" for Amazon online shopping coupons.

The Power of Co-creation Some recent integrated national marketing campaigns, which were no longer transferred from global headquarters but originated from China, have won praise all across Asia-Pacific. Among them is Volkswagen's "People's Car Project" (PCP). The project features a sophisticated open innovation platform that allows consumers to interact with the VW brand to design the car of their dreams and to share it across social media channels with their peers. In this way, Volkswagen was able to tap into the ideas of its fans and automotive enthusiasts in general. The best ideas were taken up by VW product development to inspire the future of automotive development in China. Volkswagen launched the project in 2011 to improve its brand perception, optimize VW innovations through true market insight and add to VW's brand values. The German car manufacturer also wanted to emotionalize the brand and leverage its database for sales. A multimedia campaign with several dimensions and audiences was started to co-create "the first car by the people and for the people." The approach was to proceed in four successive phases: Design, personalization, connectivity and environment. A dedicated web platform was set up in order to interact with consumers, collect ideas and spread the word.

Case Study: The People's Car Project (PCP)

Company/Brand:	Volkswagen Group China/VW Brand
Category:	Automotive/Digital Marketing
Country:	China
Lead agency:	Goodstein & Partners/Proximity China

Situation: China is a fast growing yet highly competitive market for global car manufacturers. Consequently, as the market leader, Volkswagen needs to constantly build new ways to attract and engage with current and future target groups to stay ahead of the curve. As China has the largest internet user base in the world and there is abundant proof that the Chinese enjoy becoming intensely involved in social media and online discussions, digital communication is core to automotive marketing.

Strategy: For Volkswagen as the first and most popular car brand in China, it is important to not only achieve a leading position in digital marketing but also to intensively engage with its target groups and the Chinese people overall. As the Chinese have become real car enthusiasts, the guiding strategic idea of People's Car Project was to let the Chinese envision the kind of car they would like to drive. Among the strategic goals of the program were the support VW's positive and relevant brand perception, an optimized innovation through co-creation and true market insights as well as a further increase of the emotional appeal of the brand through engagement.

Campaign description: PCP was planned, launched and implemented over the course of two years (April 2011–April 2013). On this basis, a multi-dimensional interactive campaign was developed to inspire the audience, help them design their own personalized automotive ideas, share and discuss with their peers and collect and screen the ideas. A dedicated web platform (www.zaoche.cn) was created and constantly extended to interact with consumers, collect ideas and spread the word through many viral activities. The campaign was supported by a series of online and offline marketing activities conducted in four phases, each one with a unique theme—"Design," "Personalization," "Connectivity," and "Environment."

The PCP platform was designed to:

- **Inspire**: provide examples to users and inspire them to generate their own unique ideas and creations
- **Create**: offer opportunities to develop, visualize, describe and submit their ideas
- **Compete**: challenge users to rate each other's original ideas, be judged by experts and spark various discussions

(continued)

- **Build**: select the best ideas, incorporate them into the design of the car, visualize the design process in a series of videos, publish status, processes and outcomes updates, and, as the grand finale, present the realized People's Concept Car to the Chinese public during the Shanghai Auto Show.

Result (over the course of 2 years): Volkswagen China successfully optimized its digital engagement and brand perception in key image dimensions. The campaign's achievements include:

- 14 million unique visitors
- 390,000 platform registrations
- 290,000 ideas submitted
- 495,000 fans and followers
- 48 million viral video views
- Integration with all the largest Chinese social media sites via PCP
- For 18 months PCP was *the* online campaign in China—between all the brands, not just automotive
- VW seen as digital performance leader and most socially integrated brand among automotive brands in China
- VW China won the Cannes Golden Lion

Campaign visual of Volkswagen's People's Car Project. *Source*: Volkswagen Group China/Goodstein Partners (2013)

(continued)

Impressions from the web-based automotive co-creation platform and related activities. *Source*: Volkswagen Group China/Goodstein Partners (2013)

Low Cost but High Impact It is not only Volkswagen that is betting big time on social channels. Ford started its "One Tank. 1500 km. One Classic Story" campaign in India in 2012 with 11 individuals whose task it was to embark on a road trip with a Ford Classic Titanium series car to realize their passions. The participants were accompanied by a cinematographer who captured and narrated their "Classic Story." It culminated with the launch of the videos on various social media platforms. The vice president of marketing at Ford India dubbed the initiative "one of our least expensive campaigns but one of the most rewarding." The manager explained after the campaign why his company relied so much on social media for the rebranding of Ford Fiesta to Ford Classic: "75 % of people believe what they read on social media sites, as compared to 50 % of the people who believe advertisements on TV. As a medium, it is far more powerful for any marketer versus the traditional mediums that exist" (Campaign Asia 2012). This campaign proved yet again how digital word of mouth has become a vital source of information and a powerful motivator for BRIC consumers.

Four Principles for "Digital Leadership" Not every brand needs to fight for digital leadership. There simply is no one best way. But whatever digital leadership may mean for different brands, there are four key principals that every marketer should consider when building or reshaping a brand's digital presence:

#1 Define the Role and Purpose of Digital for the Brand
The first thing marketers need to assess is what they want to achieve with their brand in the digital space. Do they want to boost sales, create a brand experience, build relationships with customers or drive brand awareness? Often companies fail to establish a clear objective for their digital strategy. Secondly, marketers need to understand the natural digital propensity of their brand as well as how sophisticated

or advanced the digital competitive landscape may or may not be. Businesses in travel, retail or consumer electronics are more likely to exhibit high levels of digital maturity, while pharmaceuticals or OEM manufacturers tend to be a step or two behind. Clarity in purpose is the first step to developing a successful digital strategy, although it also is the easiest element to overlook.

#2 Understand the Target Group's Digital Behavior
A brand needs to understand the specific digital behavior of its target group. It is critical to address differences in digital behavior across target groups. Some may be more focused on social media, while others may be more centered on websites. Only by understanding when, where and how they engage can the influence strategy and media mix be balanced efficiently. A holistic and consistent online and offline strategy undoubtedly is key for success. Achieving this ideal balance is challenging, as information search behavior in the BRICs is increasingly complex. For example, while there are many people who actually visit a store first and then buy online, there are also more and more people who first search for information online before they make their purchase in a store. Behavior is complex and in constant flux. Organizations often put marketers in positions where they are either responsible for digital strategy and media planning or traditional marketing and media. However, traditional media and online media are only one part of a typical "consumer journey," and should be viewed not as a stand-alone discipline but rather as a component of the overall media mix.

#3 Create Relevant, Authentic and Engaging Content
As consumers deal with more noise than ever before, content quality is essential to digital success. In the digital space, the customer has the power to decide when and where to engage, and can easily ignore or even block pushed communications. To drive outstanding content, three guidelines have proven to be useful. **Be relevant:** Consumers are constantly confronted with a flood of information. Marketers need to ensure that content is driven by strong insight and addresses what actually matters to their consumers. **Be authentic:** Consumers want to believe, but they are only willing to go so far. Consistency and reaffirmation of what the brand, its values and heritage are all about is a good way to drive authenticity. **Be engaging:** Consumers like to be part of the brand experience. Allowing them to contribute, share and interact with your content will drive consumer engagement.

#4 Measure and Track Digital Performance
Digital performance measurement and how to efficiently use the reams of data produced at every digital touch point remains one of the biggest challenges. Marketers must effectively sort through this valuable stream of information to derive brand knowledge, consumer insights and new opportunities for their digital communication strategy. Tracking and measuring the performance of integrated marketing campaigns is vital to determine the returns on marketing investments and whether or not the campaign achieves its objectives. Brand managers must define

the most important metrics to be tracked for their business and determine clear KPIs that can be translated into strategic digital goals.

8.23 The Mobile Revolution

Think mobile. The “great migration” from traditional PC usage to mobile devices has created a completely new universe. The numbers are staggering. At the end of 2014, there were approximately 578 million mobile internet users in China (Fig. 8.61).

And these smartphones are in heavy use to interact with brands (see Fig. 8.62). India alone has added roughly 200 million new smartphone users in 2014, taking the total use in the country to more than 360 million. This means that India has already vaulted ahead of the U.S. to become the second-largest country for smartphone use in the world behind China. In Brazil, the sheer size of the population, together with aggressive infrastructure updates for the 2014 FIFA World Cup and the 2016 Summer Olympic games have catapulted the local mobile market into a new league as well. With user growth rates of 40.2 % in 2013 and 36 % in 2014, Brazil is by far the largest contributor to the rapidly expanding smartphone market in Latin America. Market specialists like “eMarketer” have dubbed 2013 the “Year of the Smartphone” in Latin America. Brazil has become one of the most active app markets, now ranking number six in the world in terms of app store revenue. Apps

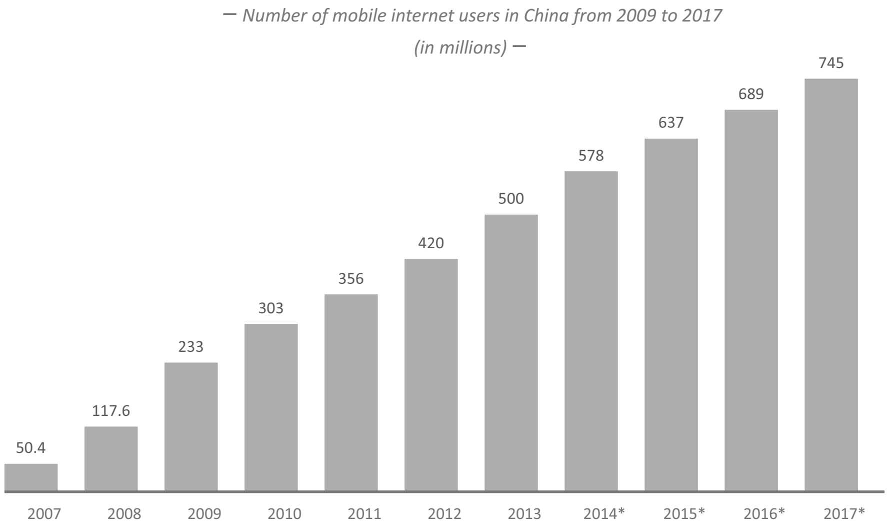


Fig. 8.61 Number of mobile internet users in China from 2009 to 2017 (in millions). *Source*: Statista (2014)

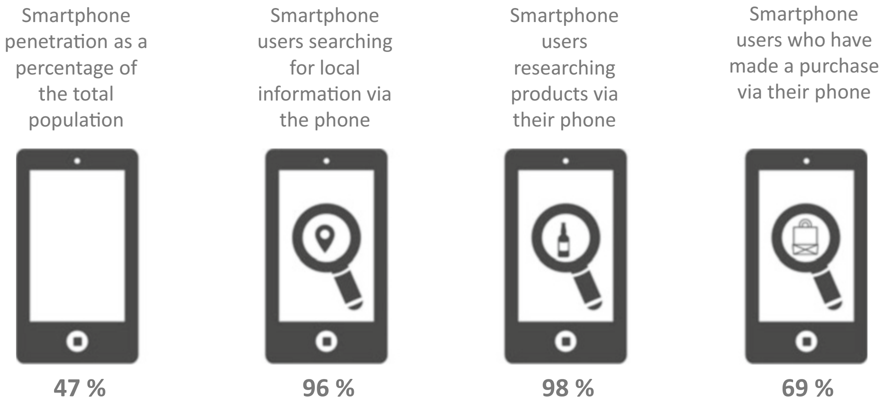


Fig. 8.62 Smartphones on the move. *Source*: Google's "Our Mobile Planet" presentation, January (2014)

are a wonderful tool for marketers to collect data on how often users open an app, how much time they spend on average, and how active they are.

The results of this emerging market mobile boom are far-reaching: What used to be the "third screen" has become the "first screen." Mobile communication has overtaken PC usage in the emerging world. This has major consequences for shopping habits, pricing power and the way brands need to communicate with their customers. According to the predictive analytics company FICO, China and India rank among the countries with the highest percentage of mobile shoppers, at 51 and 49 % respectively. France and the U.S., meanwhile, have the lowest percentage of mobile shoppers, at 12 and 16 % respectively. For brands, there is a powerful message behind these numbers. When you want to tap the shopping power of large developing countries, you can expect tremendous growth when you manage to build best-in-class mobile channels and customer experiences in order to drive your business.

Large Western companies like Unilever or BMW are currently implementing expanded mobile marketing initiatives to leverage the exceptional mobile growth in these new markets. China and India, together with South Korea, are way ahead the rest of the emerging world when it comes to mobile commerce adoption. For example, almost 1.7 billion mobile purchase transactions were processed in China in 2013, an astronomical increase of 212 % over the previous year. These transactions generated sales of $1.6 trillion. This is roughly a third of Germany's GDP. Also, in 2014 mobile web browsing surpassed desktop web browsing. Without any doubt, mobile has become an essential means for brands and business to connect and interact with their consumers. Today, a state-of-the-art mobile website with flawless e-commerce integration is more important than a classic website.

The expanding mobile universe gives marketers and brand companies a powerful additional tool to tap into an extensive rural customer base which has so far been difficult to reach at acceptable costs. Booming local internet giants like Alibaba and Tencent have helped to create dense distribution networks that allow to reach into the last corners of the huge country and deliver goods within a day or two to almost every Chinese. The demand is certainly there, since China has also surpassed the U.S. in terms of the world's largest smartphone market by daily activations. Many marketers are currently starting to swing towards the mobile sphere, which they initially have neglected. According to a recent survey by Internet agency Experia of 321 Chinese marketers, only 36 % tested mobile marketing to reach their target audiences. But with intensifying competition between domestic online retail giants, the situation is quickly improving.

"Everybody knows they need to get into mobile", says GroupM Interaction president Tony Chen. Alibaba's giant C2C platform Taobao, for example, has used its "Shopfest" campaign for "Singles' Day", November 11, successfully to create China's leading online shopping festival. Alibaba turned the Singles' Day into China's response to Valentine's Day. On November 11, 2014, Alibaba set a new world record, reporting over $9 billion in sales on a single day. There is no better way to illustrate the buying power of the Chinese online and mobile consumer. Almost 43 % of the sales that day came from customers using cellular phones.

8.24 Getting Ready for the Perfect Storm

While the issue of social media "shitstorms" is a global one, and one that can hit almost any company at any given point of time, in some of the BRIC markets there is an even higher risk of running into such a social media driven crisis. In particular, China can serve an excellent example of an environment where the likelihood of encountering such a crisis is extremely high. China not only ranks No. 1 globally in terms of its vast number of social media users but also has a long tradition of campaigning against foreign brands. And the number of high-profile brand crises is visibly increasing, possibly in connection with the advent of social media platforms, as some marketing and media experts suggest. From tainted milk to harmful sports drinks, from recycled cooking oil to faulty cars, the number of highly publicized corporate scandals is growing. Nearly every month, yet another brand in China is under fire from the authorities, from local media, and from consumers. As a result, trust in the affected brands is on the wane in China, a development that watchful marketers must carefully track.

One of the younger incidents that resonated in both traditional and social media was the very public destruction of a Maserati Quattroporte in the Eastern Chinese coastal city of Qingdao. The owner, who became frustrated about what he perceived to be poor customer care by the local dealer, had his luxury car smashed in front of the Qingdao exhibition ground during an automotive fair in May 2013. The very public display of displeasure created a wave in Chinese publications. The "Qingdao Morning Post" reported the owner of the sports car became agitated because a defect on one of the car's doors was not properly repaired and because employees of the dealership left scratches on the vehicle. Maserati published a statement on Sina Weibo, calling it "regrettable" that the customer had chosen to demolish the world famous car model "in order to create a sensation."

This was not the first instance in China of a luxury car owner demolishing his vehicle. An earlier case was that of a Lamborghini Gallardo. On March 15, 2011, in order to mark the World Consumer Rights Day, the owner hired people to destroy the luxury car after it had failed to function following a service by an official Lamborghini service station. The protest was made to provoke public support and press the manufacturer to respect the owner's rights as a consumer. Such incidents are readily taken up by government media. Especially around March 15, which is Chinese Consumer Day, significant demonstrations are staged against foreign brands.

In early May 2013, General Motors had to withdraw a global advertisement that referred to China in a disrespectful manner. The TV advertising spot had been produced for the Chevrolet Trax SUV, one of the latest models of the American car maker at the time in China. It was running in Canada since April that year, and it was also posted on the European website. It featured a song including lyrics like "In the land of Fu Manchu, the girls all now do the Suzie-Q, clap their hands in the center of the floor, saying ching-ching, chop suey, swing some more." When the issue was called to GM's attention, the company acted swiftly and replaced the ad with a new version without the offensive lyrics. The incident happened at a delicate time for GM, which is seeking to maintain its strong position in the Chinese market, where its sales had risen by more than 11 % to a record 2.84 million units in 2012. Another famous example that can still be found on the internet is that of the French car manufacturer Citroen. The company launched a print advertisement that featured Chairman Mao Zedong making a funny face behind the car. The response in China was furious despite the fact that the ad had only been published in France (Asianoffbeat 2007).

In March 2013, China's state-run CCTV singled out U.S. tech giant Apple and Germany's car maker Volkswagen in its annual corporate malpractice show "3.15." In this investigative special, CCTV claimed that Apple had not offered the same post-sales service to Chinese customers as it gave to users in other markets. The TV report also attacked VW, claiming that direct shift gearbox transmissions (DSG) in some of its cars—among them the Golf, the Magotan and the Audi A3—were causing cars to uncontrollably speed up or slow down. Volkswagen had to recall a record number of 384,000. Consequently, VW suffered some damage to its reputation in its biggest national market, where it has plans to almost double its production capacity by 2018. Apple suffered a similar setback from the CCTV report. Apple CEO Timothy Cook personally apologized to Chinese consumers for poor communications related to the company's warranty policy. Latest incidents reported in 2014 that also sparked major resonance in social media were the anti-trust investigations against Mercedes-Benz and Audi regarding illegal price fixing as well as reports that Husi Foods, a major supplier of McDonald's in China, had processed expired meat. The later incident lead to a situation that many McDonald's restaurants in China stopped selling beef burgers and chicken wings for some time in summer 2014.

The incident showed how important it is for foreign brands to monitor the social space and to be prepared to respond immediately. Campaigns against foreign brands can inflict severe damage, at least in the short-term. Incidents such as these are nothing new in China. For many observers, they seem like a natural political response to the fact that Chinese consumers in many areas have a very strong preference for foreign brands and are easily attracted to new trends and business models from overseas. Furthermore, Chinese authorities are "not amused" about their own slow progress in creating strong homegrown premium car brands. In 2014, foreign brands accounted for about two-thirds of China's passenger car sales and enjoyed a significantly better brand reputation than their local competitors.

In terms of technology, while local champion brands have made great progress they are finding it difficult to gain acceptance. As a result, policy makers are naturally interested in strengthening domestic demand for homegrown products. As China matures and becomes less dependent on foreign investment and technology, it is very likely that we will see more action against major foreign corporations—occasionally involving social networking and microblogging platforms.

The best way to prepare against such campaigns is to maintain good relations with relevant Chinese authorities and associations, build credibility as a friend of China through CSR activities, monitor weak points and prepare for PR crises with internal trainings and action plans that also involve social media at the very core.

8.25 The Power of Relations and Politics

In May 2013, the European Union Chamber of Commerce in China released its annual "Business Confidence Survey," which stated that the financial performance and optimism of European companies in the People's Republic were waning. But the paper identified several growth opportunities through the ongoing reform process in the country. According to the Chamber's report, half of the European companies noted that China now accounts for more than 10 % of their global revenues. 71 % of all respondents were optimistic about China's growth prospects, and 86 % planned further investments in the country.

The first paragraph of the European Chamber's report brimmed over with words like "regulatory environment," "reforms," "fairer competition" and the "rule of law." This language reflects the fact that even after more than 30 years of market reforms, the state still has a heavy hand in China's economy. Two-thirds of the more than 2000 A-share companies listed on mainland China's stock exchanges are state-owned or state-controlled. And even private companies in China have strong unofficial government ties. The government—on all levels—still plays a key role and has the final decision on many strategically important industries, price setting, regulation, corporate governance as well as financing and investment planning.

There is almost no way to work around the Chinese government. To varying degrees, this situation exists in the other BRIC countries. While China is organized as a one-party state, Russia is run by a strong president within an authoritarian pseudo-democracy. Economic sanctions against Russia related to its actions in Ukraine are also impacting opportunities for doing business in Russia and enhancing the likelihood for Russian counter-actions against major foreign business and brands.

India is characterized by a highly corrupted multi-party system that has not completely shaken off its once suffocating "License Raj." However, there is the hope that under the new government of Prime Minister Narendra Modi, who took office in 2014, a more open and business-friendly atmosphere will prevail. And Brazil has pretty much the most regulated and highest tax environment within the BRICs. Overall in this grouping, the governments strongly influence the economic agenda, regulation, governance, planning and investment. Consequently, it is vital to have a clear understanding of the political agenda and how it relates to the economy. Maintaining good relationships with those who are in charge of governing and regulating is absolutely essential.

"In China," explains Singapore based consultant Joseph Lee, "*Guanxi* is a complicated field. A special feature of doing business in China will be that *guanxi* will have to include relationship with the government body, it is important for foreign investors to learn to coordinate with the government, especially establishing good relationships with government bodies dealing with foreign trade and economic cooperation," says Lee. In the automotive industry in China, for example, there is no alternative anyway because foreign investors are forced to form Joint Ventures with local rivals, most of which are state-owned companies.

One of the most crucial tasks is to identify those government departments that regulate your industry. Investors need to make sure that the persons they are talking to are really the ones they are claiming to be. There is an uncounted number of "show-offs" and fraudulent consultants who claim to have "excellent" government connections and later turn out to be just talented money makers and story tellers. The deeper you advance into the less developed hinterland, the greater the risk of encountering such charlatans. But even in more developed economic centers, all connections are ultimately local. And the business environment in China is as varied and regionally specific as the Chinese cuisine. It may be helpful to cross-check with different sources to confirm that you have successfully networked with the right people.

Many experienced business people in the BRICs will tell you that given the high volume of policy changes, development initiatives and government structure reforms, making such contacts is more challenging than ever before. And as companies expand into Tier 1, Tier 2 and Tier 3 cities across Brazil, India, China and Russia, they are more likely to run into local government officials that may lack experience in dealing with foreign investors. For Western brands, this means campaigns need to be well-informed on current government affairs issues.

"Managing government interaction at the provincial and municipal levels is one of the most overlooked aspects of a successful advocacy strategy," claims a paper by the US-China Business Council" on managing government affairs. This paper on best practices warns that "many local officials lack a full understanding of the intent behind or implications of national policies and tend to be conservative as a result." The effort of establishing and maintaining good government relations can also be complicated and turn into a time-consuming exercise because in the BRICs government officials generally have little incentive to share information with other departments or agencies. For foreign companies this often means several meetings on the same topic—even within the same agency. But the good news is, government officials can be incentivized from the outside. This can be done by sharing know-how to a certain extent, by offering industry experience, or by tying the subjects of meetings to the official's own priorities and concerns. Figures 8.63, 8.64, 8.65, 8.66, and 8.67 again summarize the key strategies and frameworks presented in this chapter.

Summary: 25 Strategies and Frameworks for Brand Growth in Emerging Markets

1 { **Defining the right model for global expansion**
Successful brands find the most fitting growth strategy for their expansion in the major emerging markets while considering the optimal degree of local adjustment and the right balance between efficiency and flexibility.

2 { **Understanding your local brand perception**
Knowledge is power, therefore successful brands develop a clear understanding of local strengths and challenges that their brand has in order to constantly improve its performance. Throughout this process, a systematic analysis of local brand performance is the first step.

3 { **Positioning as global, hybridized, or local brand**
Successful brands know how to position themselves in terms of a global versus local appeal. They understand the market, identify the right brand appeal, and choose between a global, local, or hybridized positioning.

4 { **Defining a market-driven brand positioning**
Local success requires ideal positioning that fulfills the key requirements of that specific market. Market facts, competitor analysis and customer insights, including local brand perception and 'blank positioning spots' serve as an analytical foundation.

5 { **Utilizing local cultural values and related consumption drivers**
Successful brands are well acquainted with common cultural values in the local market – be it collectivism or family orientation – and selectively apply them in their value propositions and marketing activities.

Fig. 8.63 Summary: 25 strategies and frameworks for brand growth in emerging markets (1/5)

6 **Rising individualism and more emotional approaches**
"My brand" is on the rise and successful brands know how to make use of the individualization trend among BRIC consumers: they gain relevance through reflecting the user's individual style and personality.

7 **Using the power of local beliefs, myths and tastes**
Why lavishly create new consumer needs if one can work along existing demands? Successful brands utilize local beliefs, myths, and tastes as powerful sources of competitive advantage and product differentiation.

8 **Brand origin and perceived foreignness matter**
Emerging market champions know how to 'play' their origin. Although perhaps paradoxical, over-highlighting foreign roots can be the right way forward in status-driven markets. Neglecting this origin opportunity can mean missing out on huge consumer potential.

9 **Educational approaches and global brand heritage storytelling**
Successful brands tell their unique story to billions of potential buyers in growth markets. As they know, 'educating' consumers about their origin and brand heritage is among the few competitive advantages that cannot be easily imitated.

10 **Catching the second wave: The Retention Challenge**
CRM at its best means successful brands tracking, processing and interacting at an incredible scale and pace with one objective: retaining the affluent BRIC clients when they make the critical repurchase decisions for big ticket items.

Fig. 8.64 Summary: 25 strategies and frameworks for brand growth in emerging markets (2/5)

11 **Expansion along regions and city clusters**
Successful brands appreciate the vast regional diversity within the BRICs and instead of applying an incompatible country-level approach, they focus on expanding along promising regions and city clusters.

12 **Acquisition and revitalization of local brands**
Winning over the more traditional consumers can be a tough challenge in BRIC markets. Successful brands sometimes simply buy their way to market leadership by acquiring a local brand, and as a results its customer base and local distribution network.

13 **Vertical brand stretching to explore the middle market**
Vertical brand stretching is a promising way to catch the vast market potential of middle and lower income segments. This huge potential also holds some risks, therefore careful management is needed to avoid the dilution of premium brand assets.

14 **Introducing separate brands for separate markets**
Successful brands trying to avoid vertical stretching tend to create separate brands for the promising middle market. This strategy allows the harvesting of consumer's varying willingness to pay at different levels of the market.

15 **Leveraging brand equity through horizontal brand stretching**
Successful brands leverage their flagship brand names across different categories and as a result realize significant resource efficiencies. This strategy has proved to be successful especially with newer BRIC consumers as they tend to accept greater brand stretching.

Fig. 8.65 Summary: 25 strategies and frameworks for brand growth in emerging markets (3/5)

16 { **Stronger use of corporate brands**
Successful corporations utilize their strong corporate umbrella brand to save on cost and boost individual brand awareness and reputation. This is accomplished either through a 'branded house' strategy or strong corporate endorsement.

17 { **Flooding the category**
Brands who are strong financially often offer multiple brands positioned differently within the same category. By doing this they appeal to a larger customer segment, allowing for faster and deeper market penetration.

18 { **"Experientialization" – Communication that changes behavior**
Many foreign brands have learned how difficult it is to get BRIC consumers to trial a new brand. The solution: 'Experientialization' – designing first-hand experiences, events and activities to demonstrate to the consumer how the brand can enrich their life.

19 { **Premium for everyone**
Tens of millions of BRIC consumers are trading up therefore, premium products are not just for the wealthy anymore. Successful brands use this 'premiumization' trend for their own product designs and marketing strategies.

20 { **Avoiding the brand schizophrenia dilemma**
Successful brands make smart decisions about whether to research, develop and manufacture their products at home or abroad, as they know the right balance between their national identity and local commitment is essential.

Fig. 8.66 Summary: 25 strategies and frameworks for brand growth in emerging markets (4/5)

21 { **Digitalization: The age of tweets, likes and uploads**
Digitalization has taken over the BRIC countries, and successful brands know building their brand in the digital sphere is key to becoming and remaining successful among the most connected people on the planet.

22 { **Think social and co-create**
BRIC 'netizens' love to share information, ideas, and recommendations via social media. Successful brands seize this opportunity to run cross-media campaigns that improve direct interaction and co-creation between their brands and customers.

23 { **The mobile revolution**
The 'great migration' from PC usage to mobile devices has created a new marketing world, and successful brands adapt to the new reality by strategically exploiting the mobile channel for their communication and sales.

24 { **Getting ready for the perfect storm**
Successful foreign brands know they face higher risk of public criticism on social media. Knowing this, they are prepared to respond when the 'shit hits the fan' with strategic tools such as crisis monitoring and real-time response strategies.

25 { **The power of relations and politics**
Successful brands understand the importance of the institutional environment and administration relations in the BRICs, and as a result they build and maintain good relationships with those in charge.

Fig. 8.67 Summary: 25 strategies and frameworks for brand growth in emerging markets (5/5)

References

Aaker, J. L. (1997). Dimensions of brand personality. *Journal of Marketing Research, 34*(3), 347–356.

Amine, L. S., Chao M. C., & Arnold, M. J. (2005, Summer). Executive insights: Exploring the practical effects of country of origin, animosity, and price–quality issues: Two case studies of Taiwan and Acer in China. *Journal of International Marketing,* 13(2), 114–150.

Asianoffbeat. (2007). Disrespectful Citroen ad with Mao Zedong making a funny face. Accessed December 15, 2014, from http://www.asianoffbeat.com/CrazyPictures/Napoleon-Replaces-Mao-in-Controversial-Citroen-Ad.jpg

Atsmon, Y., Magni, M., & Li, L. (2012). *Meet the 2020 Chinese consumer*. Shanghai: McKinsey Insights China.

Beattie, A. C. (2012, October 29). *Early foothold in China pays off*. Advertising Age. Accessed January 3, 2015, from http://adage.com/article/special-report-pg-at-175/early-foothold-china-pays/237996/

Campaign Asia. (2012, August 27). *One of our least expensive campaigns but one of the most rewarding*.

Campaign India. (2012, September 14). *Indian brands outperform global brands on engagement: Ketchum Sampark social media study*.

Cheng, H. (1994). Reflections of cultural values: A content analysis of Chinese magazine advertisement from 1982 and 1992. *International Journal of Advertising, 13*(2), 167–183.

Corsi, V. (2011). *Marketing to the modern Asian woman: Trends to watch*. Landor. Accessed March 26, 2015, from http://www.wpp.com/wpp/marketing/branding/marketing-to-the-modern-asian-woman/

Churkina, O., & Sandler, C. (2011). *Glocalization—A measure of global brands*. Esomar Paper Asia Pacific.

COLLOQUY. (2011, October). *The global loyalty compass*.

Davey, J., & Walton, E. (2010, November 29). Ogilvy Action presentation at Marketing to Modern Asian Women Conference, Singapore.

Dobbs, R., Manyika, J., Roxburgh, C., & Lund, S. (2012, June). *Urban world: Cities and the rise of the consuming class*. McKinsey Global Institute.

Doctoroff, T. (2013). *What Chinese want*. Palgrave Macmillan.

Esch, F.-R. (2002). *Strategie und Technik der Markenführung*. München: Vahlen Verlag.

Forbes India. (2012, July 9). Interview with L'Oréal's Managing Director in India, Jacques Challes.

Global Intelligence Alliance. (2012). Business perspectives on emerging markets 2012–2017. Accessed November 06, 2014, from http://www.globalintelligence.com/press/latest/2012/indonesia-south-africa-and-vietnam-ranked-top-emerging-markets-after-bric-for-2012-2017

globeone. (2011). BRIC branding survey 2011. www.globe-one.com

Grünweg, T. (2014). Die Peking-Wende. Spiegel Online. Accessed November 5, 2014, from http://www.spiegel.de/auto/aktuell/mercedes-neue-design-einfluesse-fuer-daimler-modelle-kommen-aus-peking-a-1000888.html

Handelsblatt. (2013, October). Verbal comment by Dieter Zetsche, CEO of Daimler, made in a speech at the Handelsblatt Automotive Summit in Munich.

Hofstede, G. (1980). *Culture's consequences—International differences in work-related values*. Newbury Park, CA: Sage.

Hofstede, G. (1984). *Culture's consequences—International differences in work-related values*. Beverly Hills, CA: Sage.

Johansson, J. K., & Leigh, L. (2011). The rate of penetration by multinationals into emerging markets: Evidence from BRIC. *Multinational Business Review, 19*(3), 272–289.

KPMG. (2013, March). China connected consumers. Accessed January 19, 2015, from http://www.kpmg.com/CN/en/IssuesAndInsights/Articles

Kroeber, A. L., & Kluckhohn, C. (1952). *Culture: A critical review of concepts and definitions*. Cambridge, MA: Peabody Museum of American Archaeology and Ethnology, Harvard University.

Magni, M., & Atsmon, Y. (2012, May). Catering to the self-expressive Chinese consumer. *Harvard Business Review*.

Marketingtochina. (2012, November 14). Eight tips about Chinese female customers. Accessed March 25, 2015, from http://marketingtochina.com/eight-tips-about-chinese-female-customers/

McCracken, G. (1990). Culture and consumer behavior: An anthropological perspective. *Journal of the Marketing Research Society, 32*(1), 3–11.

McKinsey. (2010, November 29). *Co-creation with affluent Asian women*. Presentation at 2010 Marketing to Modern Asian Women Conference in Singapore.

Mulyagenara, R., & Tsarenko, Y. (2005). *A Conceptual model of consumer personality-brand preferences relationship* (pp. 58–64). Perth, WA: ANZMAC.

Nielsen. (2012). *Inovation powerded by brand stretching*. Nielsen Featured Insights.

Prognos. (2013, June 6). Studie—Deutscher Export verliert rasant Marktanteile an China. Accessed January 15, 2015, from http://de.reuters.com/article/economicsNews/idDEBEE95502Y20130606

Rein, S. (2012, November 14). *Why global brands fail in China*. CNBC.

Reuters. (2013, March 7). *Ikea turns the global local for Asia push*.

Rokeach, M. (1973). *The nature of human values*. New York: Free Press.

Roth, M. S. (1995). Effects of global market condition on brand image customization and brand performance. *Journal of Advertising, 24*(4), 55–75.

Roland Berger Strategy Consultants. (2013, March). Frugal innovation. COO Insights. Accessed January 1, 2015, from http://www.rolandberger.de/medi/pdf/Roland_Berger_COO_Insights_Frugal_Innovation_German_20140121.pdf

Schaffmeister, N. (2013). *Market-driven positioning: The key to success in growth markets* (globeone Discussion Paper No. 1/2013). Accessed http://globe-one.com/market-driven-positioning-4526/

Schwartz, S. H. (2006). A theory of cultural value orientations: Explication and applications. *Comparative Sociology, 5*(2–3), 137.

Serviceplan. (2014, February 6). Best brands China award. Accessed January 2, 2015, from http://www.serviceplan.com/en/news-detailed/bst-brands-2014.html

Sha, S., Huang, T., & Gabardi, E. (2013, March). Upward mobility: The future of China's premium car market. *McKinsey Automotive & Assembly Practice*.

Tellis, G. J., & Golder, P. N. (1993, May). Pioneer advantage: Marketing logic or marketing legend? *Journal of Marketing Research, 30*(2).

Tse, D. K., Belk, R., & Zhou, N. (1989, March). Becoming a consumer society: A longitudinal and cross-culture content analysis of print ads from Hong Kong, the Peoples Republic of China, and Taiwan. *Journal of Consumer Research, 15*, 457–472.

Usunier, J.-C., & Lee, J. A. (2009). *Marketing across cultures* (5th ed.). Pearson Education: Harlow.

Usunier, J. C. (2000). *Marketing across cultures* (3rd ed.). London: Prentice Hall Europe.

Volkswagen. (2012). Volkswagen Group China presentation by Dr. Mull. Accessed July 17, 2015, from http://www.volkswagenag.com/content/vwcorp/info_center/de/talks_and_presentations/2012/03/Volkswagen_Group_in_China.bin.html/binarystorageitem/file/P

Wang, H. H. (2010). The Chinese dream: The rise of the world's largest middle class and what it means to you. Bestseller Press.

Wang, H. (2012, September 3). Yum! China: From rebranding to reinventing. *Forbes Magazine*.

Wirtz, W., & Göttgens, O. (2004). *Integriertes Marken- und Kundenwertmanagement—Strategien, Konzepte und Best Practices*. Wiesbaden: Gabler.

Wong, A. (2008). A comparative analysis of Wal-Mart's strategy in the United States and China. Oxford Business and Economics Conference Program. ISBN : 978-0-9742114-7-3.

Yin, J. (1999). International advertising strategies in China: A worldwide survey of foreign advertisers. *Journal of Advertising Research, 39*(6), 25–35.

Zhou, N., & Belk, R. W. (2004). Chinese consumer readings of global and local advertising appeals. *Journal of Advertising, 33*(3), 63–76.

9 Beyond the BRICs: A Closing Remark

What should the major learnings from this book be? From our perspective, there are a couple of key takeaways.

First, as the dependence of international corporations on emerging markets has never been as strong as it is today, there is much evidence that local market factors and local consumption contexts matter. This book presented plenty of evidence that companies that adjust their positioning, product offering, communication, pricing and distribution adequately to the local context can expect a strategic competitive advantage. This does not mean that their business models, related technologies or overall management systems have to be completely adjusted, or that all responsibility has to reside with local management; But rather, that a corporation must be able to understand the relevant context factors in major growth markets and be able to respond to differences in a timely manner at a global and local level. In many cases, this will require that global management "unlearn" some of their principles. Business practices and critical success factors vary and consumers behave differently depending on the context in which they live. The 25 strategies and frameworks presented in the previous chapter can serve as basis for understanding.

Second, in addition to understanding the right amount of local adjustment, a strong brand generally is one of the very few sustainable competitive advantages that a corporation can build on in a competitive emerging market. In many cases, such brands can, or even should be positioned as foreign brands with a local touch, as there is much evidence that up to a certain point, in an emerging market context and in most categories, a foreign or global brand positioning is superior in terms of consumer preference and pricing power. However, and this is of utmost importance, a foreign or global brand positioning does not mean that most marketing related parameters are of truly global standard, or aligned exactly with the home market. Rather, it means that the consumers in the target market are clearly informed about the foreign origin of the brand and related benefits, while the positioning itself and many of the marketing program parameters should be hybridized to match local consumer preferences and to enhance their information and decision processes. This should be a key take-away after reading this book.

N. Schaffmeister, *Brand Building and Marketing in Key Emerging Markets*,
Management for Professionals, DOI 10.1007/978-3-319-19482-0_9

Third, a Western-dominated view of the world will be increasingly challenged in the years to come. Some aspects, such as brand stretching, city clustering, government relations or marketing to lower-income parts of society, might appear irrelevant from a developed market perspective. However, they are highly relevant in an emerging growth market context, and that is why many marketing text books may need to be rewritten and extended in order to embrace a broader view of the world. Consequently, some of the most frequently (mis-)used terms in marketing such as "global brand" or "localization" would benefit from a more careful definition. From our perspective, a global brand is a brand that is marketed globally across a wide variety of markets. While it is probably marketed under the same global name and uses the same CI, it does not at all mean that it is marketed uniformly across all markets or positioned on identical value and purchase drivers. According to our observations, there is a trend of increasing individualization and hybridization of positioning and marketing among many so-called global brands. The main positioning ideas in important markets simply vary. Moreover, frequently used mottos like "think globally, act locally" fail to add to the discussion. They are too simplistic and only leave a vague impression of which of the many strategic decision layers and brand elements should be made local or global, and to what degree.

While marketing is frequently regarded as a domain of American or Western scholars, this dominance is likely to be challenged. In addition to the business significance of large emerging markets that are just "too big to be ignored," there are also an increasing number of very bright scholars from China, India, Russia and other emerging markets who are contributing significantly to the progress of marketing as a science. With their writing and diversified perspective, a more multipolar academic view of the world should be emerging. Some of the ideas and concepts outlined in this book have not been empirically tested in a broader sense and there are many open questions that still need to be addressed.

The current digitalization of business and marketing will also contribute to a broader view. As more data is collected, this does not only create more complexity, but over time it will help us to understand more about local customer demands and local marketing contexts in general. Consequently, it can be expected that—as data and analysis improves—we are likely to see even more sophisticated and orchestrated ways of local product individualization and brand adjustment. Technology will help us to successfully manage a much more complex world. Additionally, the broader use of technology such as; big data, predictive targeting, built-to-order and modularized manufacturing, co-creation, real-time pricing and sophisticated 3D printing is constantly expanding the possibilities of local product and service individualization without necessarily diving-up related costs. As a result, the demands of consumers in large emerging markets are likely to be much better serviced in the years to come. In some cases, technology-based product individualization has already granted stunning results. Taking the iPhone for example; it has been a tremendous success around the globe, not only because Apple is an attractive brand, but because its calculation power, storage capacity and operating system allow for an ultimate degree of freedom in terms of language, functionality and personalization. The iPhone is flexible enough to support almost any language and the installation of apps allows for an almost limitless adaptation to local and individual needs. These features combined with an easy-to-use design and almost foolproof operating system, is the secret to its global success. Apple did its homework and finally enabled the individual adjustments consumers had been long waiting for.

The more digitized communication and business becomes, the more important data will be for successful marketing and brand building. What used to be mainly instinctive "gut" decisions by marketing professionals has now become a decision based on facts and big data. While the digitalization of business in the current transition-period leads to even more complexity for marketing managers, it is likely to enhance the quality of their decisions and the possibilities at their disposal in the near future. For those overseeing brand and marketing, this opens up new horizons. As the understanding of the individual consumer or consumer segment increases and new technologies allow for real-time interactions, the needs of all consumers—including those from emerging markets—are likely to be better met. Messages can be varied, offers personalized and prices adjusted. Beyond purely sales driven communication, target-group specific adjustments of the brand positioning are tantalizingly close, and will eventually lead to a "modularization of positioning," just like what occurred with advanced computer assisted manufacturing. Why not provide tailor made brand positioning modules to different target groups? In the context of the emerging markets, brands could easily offer different brand promises at different socio-economic layers of society without creating major contradictions. Supported by technology, brand stretching could become very sophisticated in a way that, depending who the brand interacts with, would dynamically offer different product qualities, different service levels, different price levels and, yes, even different value propositions. Data will continue changing the way we interact with consumers and it is quite likely that some of the drivers will come from emerging markets rather than from the U.S. or Europe.

In general, it seems that the times of "WEIRD" dominance might be over. WEIRD is how some experts have summarized the many characteristics of Western management (Western, Educated, Industrialized, Rich and Democratic). Having such a background leaves substantial traces in the way managers respond to challenges and deal with people. Specifically, a manager from a WEIRD country will need some time to understand and act according to a local context in an emerging market. I will never forget how a friend of mine who worked for a large wholesaler in China and India once told me, puzzled, that he had tried to involve and motivate his marketing team by asking them for their own opinion on certain problems. He thought it might motivate and encourage them to know that their views were important. Later on he learned that his team was very confused by his participatory management style and the team believed that he must be insecure and a weak leader because he always asked for opinions and did not want to decide all by himself. How strange, they thought, isn't the boss himself supposed to be making the decisions and not the subordinates? Isn't that what he is paid for and why he is the boss?

As has been argued in this book, the future will bring many more innovations from emerging markets, especially from China and India. As investments in R&D grow and the consolidation of major players continue, it will become more normal to experience trends, fashions and celebrities that are non-Western. Over the next decade, China is expected to become an innovation center and trend setter in many areas—especially in terms of automotive design, mobile communication, social commerce, green technology and, potentially, e-mobility. At the same time, India is also pushing ahead in terms of technology investment and innovative e-business solutions, while the traditional global innovation equation is being challenged by Brazil. Besides some astonishing progress in genome mapping, Brazil has very recently also created headlines for its success in developing organic solar cells based on plastics. Currently there is significant research taking place worldwide focused on efficient and low-cost solar cells of this kind, which could foster the wide-spread use of higher efficiency and more inexpensive solar power, even in low-density back country areas. In general, more trends and solutions in digital and mobile commerce will originate from emerging markets. This means that Western businesses need to be prepared for more competition, especially from their Asian counterparts. For example, as China is developing more and more strength in categories like home computing or mobile handsets, it is likely that foreign brands will be feeling the heat in the years to come, while in the automotive market—where China so far failed to establish completely homegrown brands—it is likely that foreign brands and their joint ventures will dominate for the next decade.

Regarding the future relevance of the BRICs, a few comments can be made. The original concept was simple: 15 years ago, Jim O'Neill, at that time chief economist of Goldman Sachs, combined the first letters of the four major emerging markets to from the acronym BRIC. At that time, he was likely unaware that he had coined a term that would ultimately assume a great deal of geopolitical significance.

Today, there are questions about the future of some BRIC members. As discussed in the country chapters, Russia and Brazil have huge potential but are experiencing major roadblocks, and at this time it is uncertain if and when these hurdles will be overcome. Conversely, China and India have become tractive forces. As Jim O'Neill told the German Business daily Handelsblatt in January 2015 about the BRIC countries: "I might be tempted to shorten the concept to 'IC.'"

As foreign direct investors are not the most patient people on the planet, all kinds of new emerging markets and growth frontiers are currently being examined and explored. According to some marketers and analysts, African countries like Ghana and Nigeria are among the emerging countries with the most exciting prospects. Some investors are turning their attention to countries such as Indonesia, Thailand and the Philippines, while Japanese carmakers are now selling as many passenger vehicles to Southeast Asia as they do to China.

That is why strategists at Goldman Sachs have come up with a new magic abbreviation called MIST, which stands for Mexico, Indonesia, South Korea and Turkey (others refer to the MINT countries and exchange South Korea with Nigeria). The MIST countries have more than doubled in economic size during the past decade, surpassing even Germany in terms of output back in 2011. While

Mexico is now Latin America's second largest economy, Indonesia's domestic spending and investments have spurred serious growth. South Korea is geographically sandwiched between Asia's two largest economies, Japan and China, and must stay extremely competitive in order to keep growing. Finally, Turkey, thanks to its location, serves as a natural bridge between Asia and Europe. During the past decade it has risen to become a major magnet for foreign direct investments, hitting one national record after another.

Similar to the BRICs, the MIST countries share common factors such as large and relatively young populations and developing consumer markets with a lot of catching up to do. The MIST grouping is in itself part of a bigger emerging orbit which is called N-11 and was conceived for portfolio purposes. Besides the MIST, the N-11 includes Bangladesh, Egypt, Nigeria, Pakistan, the Philippines, Vietnam and Iran. As the growth of some BRIC members slows temporarily to more normal growth rates due to global headwinds and internal structural challenges the emerging markets of the N-11 are coming to the forefront. Additionally, popular comparisons with the BRICs display some of their competitive advantages. In the World Economic Forum's 2012 trade openness index, for example, Mexico (65), as well as Indonesia (58) and South Korea (34), are well ahead of Brazil (84), Russia (112) and India (100).

But while the MIST countries account for just 7 % of the world's population, 3 % of the land area and 4 % of global growth, the BRICs are home to almost every second consumer on this planet, and they account for one quarter of global GDP. More than that, since 2005, they have contributed to almost two-fifths of worldwide growth. So, as they cool down and prepare for their next phase of development, some of the enthusiasm among Western investors and exporters is cooling down as well. But without a doubt, the overwhelming potential for additional growth for many years to come rests with the BRICs. Even as they slow down for some time, you can already see the economic changes and political reforms that are likely to form the groundwork for the next period of growth. The next push will force their companies further up the technological ladder and increase the domestic share of added value in their exports. Consequently, even more new corporate champions from the BRICs will be entering Europe and the United States for mergers and acquisitions. Moreover, companies in the West will be better prepared for this looming attack on their own premium markets if they decide to engage these new international competitors in their home markets. By doing this, they can learn how to compete against emerging champions while expanding their own global sales and brand footprint.

About the Author

Dr. Niklas Schaffmeister is a proclaimed expert in brand management and strategic market communication based on market drivers and consumer needs. He specializes in the development of market-driven positioning concepts for leading global brands in emerging markets. Further focus areas are B2B branding, digital brand development as well as brand strategies for emerging market brands in Europe and the U.S.

Dr. Schaffmeister looks back on 15 years of experience in the chemical, automotive, retail, white goods, consumer electronics and financial services industries. Numerous global Blue Chip clients from both B2B as well as B2C industries have benefited from his profound industry knowledge.

He is founder and Managing Partner of globeone—a management consultancy with focus on brand management and a special expertise in the world's key growth markets. From its offices in Germany, South America and across Asia, globeone combines global strategy and local opportunity to help brands with market-driven positioning where it matters most.

Previously, he was responsible for international consulting projects as Vice President for the Asia-Pacific operations at BBDO Consulting in Shanghai, during which he helped establish global best practices.

Dr. Schaffmeister holds a Ph.D. and a Master of Business Administration degree from the Free University of Berlin. During his Master and Ph.D. studies, Dr. Schaffmeister was a visiting scholar at The University of Michigan in Ann Arbor and The Chinese University of Hong Kong. During the 6 years he lived in Shanghai, he served as guest professor in the global MBA program of Shanghai University and has published numerous articles and studies such as the globeone BRIC Branding Survey and the Emerging Market Brands Survey. He is fluent in English, German and Mandarin.

N. Schaffmeister, *Brand Building and Marketing in Key Emerging Markets*, Management for Professionals, DOI 10.1007/978-3-319-19482-0

Supporters of the Project

Sabrina Cheung is a communications professional with more than 15 years of experience at various multinational companies and communications agencies. Her experience spans across sporting goods, fast moving consumer goods and the financial services industry in Asia and in Canada.

She currently serves as the Senior Director of Corporate Communications for adidas Group, Greater China. In this position, she leads the company's corporate affairs strategy, which includes corporate communications, issues and crisis management and stakeholder engagement. Additionally, Sabrina leads the corporate social responsibility strategy at adidas Group China to develop and manage the company's community investment and sustainability programs.

Sabrina holds a Masters of Business Administration from the University of Ottawa and an Honours B.A. Degree in International Relations from York University, Canada.

Philipp Dittes is a consultant at globeone's Shanghai office and supports international companies in the development of brands in Chinese markets. Besides market analysis and insight generation, his current work focuses on positioning platforms and the implementation of growth strategies. During his studies in Business Administration and Sinology, Philipp conducted market research and developed marketing tools for an international electronics company active in China. Before joining globeone in 2012, he was involved in the realignment strategy focusing on the Chinese market at a major German industrial company as well as a German sports brand.

Terri Fitzpatrick has over 25 years of experience in a variety roles including, business management, senior leadership and corporate communications functions with Krupp, Bayer and LANXESS. As an American Expatriat, Terri has been working and living in Germany, on her second overseas assignment since 2010. She is currently global head of Market and Brand Communications at LANXESS. Her previous roles include global head of Digital Communications and Vice President of Corporate Communications North America. Terri holds a Masters of Business Administration from the University of Pittsburgh as well as Bachelor's degrees in Economics and German from Allegheny College in Pennsylvania, USA.

Markus Gärtner has been a financial journalist since earning his Master Degree at the University of Munich in economics and political science in 1986. He worked for former Vice President Dick Cheney as an intern in the House Republican Policy Committee in 1987, before returning to Germany to pursue his career as a journalist. After reporting live from the Bavarian stock exchange for a regional radio network, he went on to become Chief of Operations at nationwide broadcaster Deutschlandfunk, based in Cologne. Markus covered the Frankfurt stock exchange and the country's four major industries as a Frankfurt financial correspondent for Germany's leading broadcaster ARD from 1993 to 1996. He then moved to Kuala Lumpur as a free-lancer to observe the financial crisis in Southeast Asia in 1997 and 1998 for ARD and DIE WELT. As a result, Germany's leading financial daily, Handelsblatt, posted him to Beijing in 1999 for 6 years to cover China's reforms and its entry into the World Trade Organization. Since then he has lived in Vancouver to report to German papers and websites about Asia's expansion from the Eastern rim of the Pacific. He travels to Asia regularly.

Florian Haller was born in 1967. After studying Economics at St. Gallen University and following his first job as customer adviser with the advertising agency Lintas in New York, he went to work for Procter & Gamble in 1992, where he stayed for 5 years. His first role with Proctor & Gamble was Category Manager, Dishwashing, at the company's European head office in Brussels, and later Brand Manager, Household Products in Geneva. In 1996, he joined the Serviceplan Group as managing director of Dritte Werbeagentur and in 2000, he moved to the Serviceplan holding company as managing director. Haller took over the position of CEO of the Serviceplan Group from his father, Dr. Peter Haller, the agency's founder in July 2002. In 2006, he was named "Agency Man of the Year" by the trade journal Horizont and W&V, Germany's most widely circulated weekly communication and media industry magazine, voted him “Media Personality of the Year” in 2010. Most recently he was chosen by the same trade magazine from a list of 100 personalities as the most creative and innovative manager in the communication industry for 2012. Haller gave the keynote speech at the 2011 Medientage conference in Munich, then in the heavyweight round that followed he represented the agency sector for the first time at the event’s opening ceremony. In 2013, he was welcomed into the Hall of Fame of German Advertising, together with his father Dr. Peter Haller, the founder of Serviceplan.

Carina Hauswald is an expert in brand management and strategic market communication, with a special focus on developing market-driven positioning concepts for leading global brands in emerging markets. Further areas of expertise are the internationalization of corporate communications as well as international project coordination and management.

As professional consultant, Carina Hauswald has worked on global and local mandates, creating meaningful impact for clients from a variety of sectors, including the chemical, automotive, media, white goods and retail industry. Numerous Blue Chip clients from B2B and B2C industries have already benefited from her combination of profound marketing expertise, management skills and entrepreneurial talent. She is a regular speaker at proclaimed universities such as the WHU—Otto Beisheim School of Management in Vallendar (Germany).

Carina Hauswald is Managing Director of globeone’s Cologne office.

Before specializing as consultant, Carina Hauswald began her career on the industry side at the multinational media company, Bertelsmann, as a corporate trainee. Subsequently, she gathered a wide range of consulting experience at several top marketing consultancies, including Batten & Company (formerly BBDO Consulting), Ketchum Pleon and the boutique consultancy BrandPact.

Carina Hauswald holds a Master degree of International Management and a Bachelor with a double major in International Management and Business Administration. Furthermore, she has visited MBA courses in North Carolina and is fluent in English and German.

Sebastian Hepp is a Manager at globeone in Cologne, Germany. He has comprehensive expertise in brand management and strategic communications and has advised clients from various industries and different countries. Besides his profound experience in cross-level marketing and international project management, he is especially passionate about optimizing digital strategies and helping international brands to leverage their full potential in the digital world.Sebatian holds a Diploma in Business Administration and English Philology at the University of Mannheim including international study experience at Universidad Nacional de Colombia.

Lena Ink specializes in strategic corporate communications. At globeone, Lena Ink has supported Chinese and Swiss B2B brands in their brand building efforts for local and global markets as well as the development of corporate communication strategies. She also supervises globeone's project office in Zurich. Before globeone, she started her career in the media business, supporting media stations and agencies in the development of communication concepts and market research. Lena Ink graduated with a Diploma in Modern Chinese Studies and Business Administration from the University of Cologne and Shanghai Normal University.

Prof. Dr. Jun Ma is an acknowledged industry expert for China's automotive industry. He doubles as Chief Professor at the Automotive Marketing Faculty and Vice Dean of the School of Automotive Studies, at the College of Design and Innovation at Tongji University in China.

After graduating from Darmstadt University in Germany with a degree in Automotive Electronics, he gained relevant industry experience by working for major companies in the automotive industry in Germany. During his 10 years in the auto industry, he has held positions in technology development and marketing as well as management at Continental TEVES, BMW, Audi amoung others. Since 2003 he has worked at Tongji University as a professor, where he continues to deliver excellence in academic research and teaching. In 2013 he became a member of DTAC, Delphi and Angel Investors. He understands the industry from an engineering, marketing and economic point of view. His experience combined with his knack for academic analysis gives him an unparalleled understanding of the Chinese and German automotive markets.

Tatjana Martens-Pearce is an expert in the areas of brand management, brand performance analysis, as well as the development of communication tools and marketing strategies. In addition, she is globeone's specialist for corporate communication and strategic marketing.

She has gained nearly a decade of experience in advising leading global industrial companies in the development and implementation of marketing and communication strategies in China. She has helped numerous multi-national companies to stay ahead in this dynamic, but challenging market, supporting projects all over China, be it in Shanghai, Beijing, Guangzhou or Qingdao. She is a speaker at business events and contributes frequently to articles in leading industry publications in Asia.

Ms. Martens-Pearce is Managing Director of globeone's Shanghai office, which opened its doors in 2009. globeone is a management consultancy with a focus on the world's key growth markets. From its offices in Germany, South America and across Asia, globeone combines global strategy and local opportunity to help brands with market-driven positioning where it matters most.

Before joining globeone, Ms. Martens-Pearce worked for global firms in the advertising and marketing industry in both Germany and China. Besides advising a German chemical group in China, her expertise extends to strategy development in the automotive, fashion, consumer durables, and global tourism industries.

Ms. Martens-Pearce holds a Master of Science in Strategic Management and a Bachelor of Arts in International Business and from the EDHEC Business School in Nice, France. She is fluent in English and German, with proficiency in Chinese.

Christiane Müller is a communications professional with over 25 years of experience in a variety of communications disciplines. Christiane is currently Senior Vice President of Strategic Projects at LANXESS. Prior to her current role, she lead the global corporate communications group of LANXESS, as the provisional Senior Vice President from June 2014 until January 2015. Christiane's other professional experiences include, Spin-Off Communications, Internal Communications and Content, Executive Communications, Corporate Responsibility and Crisis Communications. Christiane holds a degree in Architecture from the University of Cologne.

Markus Noder, born in 1973, has held the position of Managing Partner of Serviceplan International since 2012. As such, he is primarily responsible for the Serviceplan's Group locations in Austria, Switzerland, Italy, Benelux, The United Arab Emirates, China, Russia, Korea, India and France. He is also responsible for driving forward the internationalization of the Serviceplan Group.

Since 2008, Markus Noder has been Managing Partner and co-founder of Liquid Campaign, an independent, international full-service agency with offices in Germany, Russia, India and Korea. Between 2000 and 2008, he worked at Interone, where he became the Managing Director of Interone Worldwide in 2006. During his time at Interone he also spent time working in the field of internationalization. In this time, he was responsible for the opening of new locations in China, South Korea, Russia, India and the Middle East.

Sarah Rauch is Office Manager at globeone's Cologne headquarters. Sarah is a dedicated team player and supports the communication and co-operation between offices and teams across the globe. Before working for globeone she worked as Office Administrator for Europe's leading customer and business quotation service, where she absolved her professional training. She is a state-certificated Business Economist accredited by the EGB Business School of Cologne. Additionally, as a Belgian and German she has mastered her two mother tongues; French and German and is also fluent in English, Dutch and Spanish.

Hanna Rohloff is a Senior Consultant at globeone in Cologne, Germany. Hanna has extensive experience in brand management, strategy and the development of market-driven positioning concepts for leading B2B and B2C brands. She also brings in depth and practical expertise in quantitative market research. With a special focus on the US market and the emerging markets, Hanna creates meaningful impact for clients from a variety of sectors. Hanna Rohloff holds a Diploma in business administration from the University of Cologne.

Ana Helena Szasz-Barone is the Managing Director for globeone LATAM (Latin America). With more than 15 years of experience in marketing planning, corporate communication, brand management as well as category and retail management, her expertise includes qualitative and quantitative research, product launches and strategy, consumer insights, market expansion, trade channel activation, executive communication, internal and employee communication and crisis communication. Based in São Paulo, Ana has developed projects for different Brazilian regions and social classes, as well as in other Latin America countries, especially Argentina, Chile and Colombia.

Na Tang is a Senior Manager of globeone, China. With 10 years of work experience in consulting services across China and Europe, she has a proven track record in assisting clients to tackle strategic challenges, especially market entry and growth strategies, global positioning and local adaption, and cross cultural management. Na has special experience in the automotive and tire industries as well as the consumer goods and fashion industries. She holds a master degree in Fashion and Luxury Management from SDA Bocconi in Italy, and a master degree in International Economics from Renmin University in China.

Kristin Werner is a Senior Consultant at globeone in Cologne, Germany and is a true communication enthusiast. With her experience in strategic corporate and market communications as well as her storytelling skills she specializes in helping B2B companies unfold the full potential of their targeted brand positioning. Further areas of expertise are the internationalization of corporate communications as well as international project management. Kristin Werner holds a Master's degree in North American Studies from the University of Cologne.

Christiane Wolff studied theatre, film and media studies and successfully completed a media MBA at the Steinbeis University in Berlin. She worked for many years in senior positions at agencies as a spokesperson and since 2012 has lead the corporate communications of the Serviceplan Group in Munich. Almost 15 years ago she established a network for women in the communications industry with, to date, over 600 experts in Munich, Frankfurt and Berlin. In addition, she joined forces with Regina Mehler to create the first and only speakers agency in Germany: the Women Speaker Foundation. She moderates together with Monika Scheddin the good people's lunch meeting (Gute-Leute-Mittagstisch), events for the Women's Network "Nettwerk", the Marketing Club, Munich, the Women's Business Conference and internal events at the Serviceplan Group. On Ebay she is responsible, together with the moderator and speaker Monika Scheddin; for the women themed network.

Oliver Wolter is Senior Manager, Brand Marketing, for the Volkswagen Brand at Volkswagen Group China and responsible for the overall Marketing of the Volkswagen Brand in China. Before this role, Oliver held various positions within the Volkswagen Group. He served as Senior Manager for Digital Marketing at Volkswagen Group China, Project Manager at Volkswagen, Integration Manager Sales and Marketing at the Joint Venture Shanghai Volkswagen–Skoda and also served as project leader for Volkswagen in Germany.

Sabrina Würth specializes in the development of strategic market communication concepts and campaigns. At globeone, Sabrina Würth has supported several Chinese brands in their brand building efforts in local and global markets. Before globeone, she started her career in the media sector, supporting the marketing and editorial departments of major media content providers. Sabrina Würth graduated with a Master's degree in International Business and Emerging Markets from the University of Edinburgh.

Liying Zeng specializes in market and business research as well as digital marketing with a focus on emerging markets. At globeone, Liying has conducted several China market entry researches for global brands and supported digital marketing and social media projects. Liying is also experienced in cross-cultural marketing and communication and is a native Mandarin speaker.