The $30 trillion decathlon:
How consumer companies can win in emerging markets

By 2025, annual consumption in emerging markets will reach $30 trillion. Companies must master ten key disciplines—or miss the defining growth opportunity of our time.

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CEOs at most large multinational companies say they recognize the importance of the rise of middle-class consumers in emerging markets. Yet those same executives are vexed by the complexity of this opportunity. In 2010, 100 of the world's largest companies headquartered in developed economies derived just 17 percent of their total revenue from emerging markets—even though those markets accounted for 36 percent of global GDP and are likely to contribute more than 70 percent of global GDP growth between now and 2025. Western European companies fared slightly better than their North American counterparts: the 39 Western European companies among the 100 largest advanced-economy companies earned 25 percent of revenues from emerging markets compared with just 10 percent for the 37 North American companies. But the companies in both regions fail to come close to realizing the full potential of the emerging-market opportunity.

Our experience suggests that the challenge in emerging markets resembles a decathlon, where success comes from all-around excellence in multiple sports. Sitting out an event isn't an option; competing effectively means mastering a variety of capabilities. In emerging markets, companies, like athletes, must learn to make trade-offs, taking into account their own capabilities and those of competitors. The rewards for success and the costs of failure will be large.

Keiko Morimoto

The $30 trillion opportunity

Over the past two decades, the number of people earning more than $10 a day[1]—roughly the level at which households can contemplate discretionary purchases of products such as refrigerators and TVs—has more than doubled, to 2.4 billion people. McKinsey Global Institute (MGI) research suggests that by 2025 that number will nearly double again, to 4.2 billion consumers.[2]

The overwhelming majority of these new consumers will hail from emerging markets. MGI estimates that by 2025 annual consumption in emerging markets will rise to $30 trillion and account for nearly 50 percent of the world's total (Exhibit 1).[3] Even under the most pessimistic scenarios for global growth, emerging markets are likely to outperform developed economies significantly for decades.

Leading the way is a generation of consumers in their 20s and early 30s who are confident their incomes will rise and are willing to spend in order to realize their high aspirations. These new consumers have come of age in the digital era. Already, more than half of all Internet users globally are in emerging markets. Emerging consumers are shaping the digital revolution, not just participating in it, and they are leapfrogging developed-market norms.

Companies failing to pursue these consumers will squander opportunities to build positions of strength that, history suggests, could be long lasting: in 17 major product categories in the United States, the market leader in 1925 remained the number-one or number-two player for the rest of the century.[4]

Ten crucial capabilities

For developed-market companies, winning in these high-growth markets requires radical changes in mind-sets, capabilities, and resource allocation. With the help of colleagues, we've distilled a set of ten capabilities global corporations need in emerging markets. Just as winning a decathlon requires an athlete to master ten events, winning in emerging markets requires companies to master the following ten capabilities.

1. Surgically target urban growth clusters

The scale of the modern exodus from farms to urban areas has no precedent. The population of cities in developing economies grows by at least 65 million a year—the equivalent of seven cities the size of Chicago. Over the next 15 years, just 440 emerging-market cities will generate nearly half of global GDP growth.

Midsize cities frequently offer the best opportunities. In Brazil, for instance, competition in the metropolitan market of São Paulo is brutal and retail margins are razor thin. New entrants to the Brazilian market might find better options in the northeast, Brazil's populous but historically poorest region, where boomtowns like Parauapebas are growing by as much as 20 percent a year.

The notion that smaller cities can offer bigger opportunities isn't new. Fifty years ago, Wal-Mart opened its first store in Rogers, Arkansas, and proceeded to build one of the world's largest businesses by avoiding highly competitive metropolitan markets. Many multinationals nonetheless assume that developing local strategies for "middleweight" cities can come only at the expense of economies of scale. To minimize that trade-off, global companies should group smaller cities into clusters with common demographics, income distributions, cultural characteristics, media markets, and transportation links. Exhibit 2 shows urban

[1] On a purchasing-power-parity basis.

[2] Richard Dobbs, James Manyika, Jaana Remes, Charles Roxburgh, Fabian Schaer, and Sven Smit, *Urban World: Cities and the Rise of the Consuming Class*, McKinsey Global Institute, June 2012.

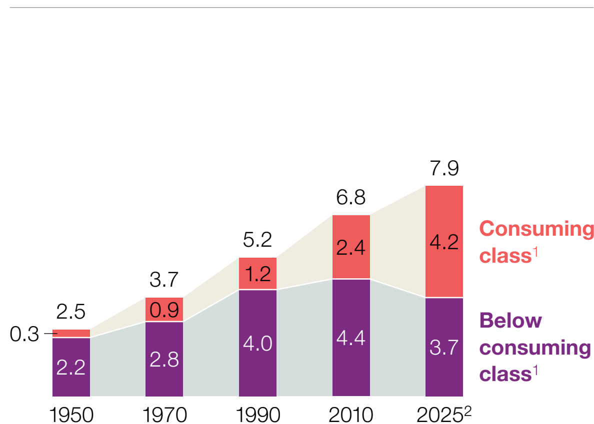
[3] The estimate of $30 trillion reflects private consumption in emerging-market regions in 2025. The regions included are Africa, Central Asia, China (with Hong Kong and Taiwan), Eastern Europe, Latin America, the Middle East, and South and Southeast Asia. Emerging-market consumption in 2025 is estimated by applying the private-consumption share of GDP per country to national GDP estimates for 2025, calculated on the basis of consensus GDP growth projections from the Economist Intelligence Unit, Global Insight, Oxford Economics, and McKinsey's long-term growth model. This approach implicitly assumes that private consumption as a share of GDP will remain constant through 2025. Past evidence from developed economies suggests the share of private consumption in many countries will increase with income, which would lead to a higher projected level of emerging-market consumption in 2025.

[4] These companies include Del Monte Foods, which led in canned fruit; Nabisco, which led in biscuits; and Wrigley, which led in chewing gum.

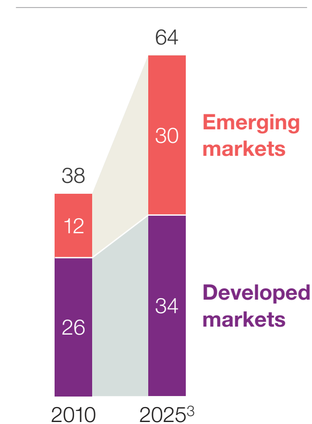
Exhibit 1

By 2025, the consuming class will swell to 4.2 billion people. Consumption in emerging markets will account for $30 trillion—nearly half of the global total.

World population, billions



World consumption, $ trillion



[1]Consuming class: daily disposable income is ≥$10; below consuming class, <$10; incomes adjusted for purchasing-power parity.
[2]Projected.
[3]Estimate based on 2010 private-consumption share of GDP per country and GDP estimates for 2010 and 2025; assumes private consumption's share of GDP will remain constant.

Source: Angus Maddison, founder of Groningen Growth and Development Centre, University of Groningen; Homi Kharas, senior fellow at Wolfensohn Center for Development at Brookings Institution; McKinsey Global Institute analysis

clusters in China. By running operations through a common management hub and pursuing gradual, cluster-by-cluster expansion, companies can gain scale efficiencies in all aspects of their operations, including marketing, logistics, supply-chain management, and distribution. For all but a handful of high-end product and service categories, the emphasis should be on "going deep" before "going wide."

2. Anticipate moments of explosive growth

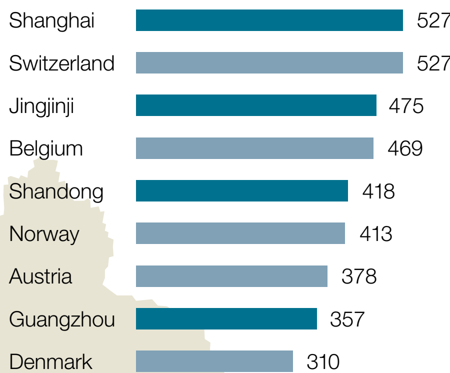
In emerging markets, timing matters as much as geography in choosing where to compete. Demand for a particular product or category of products typically follows an S-curve: there is a "warm-up zone" as growth gathers steam and consumer incomes rise, a "hot zone" where consumers have enough money to buy a product, and a "chill-out zone" in which demand eases (Exhibit 3).

In plotting consumption S-curves, per capita income is the critical variable. But the takeoff point and shape of consumption curves varies by product or service. Purchases of products with low unit costs, such as snacks and bottled drinks, accelerate at a relatively early stage of the income curve, beauty products somewhat later, and luxury products later still. Refrigerators tend to have a steep adoption curve that flattens out as the market reaches saturation, while spending on clothing displays a more sustained growth pattern.

Exhibit 2

A clustering approach can help companies target consumers more effectively in Chinese cities, some of which are economically larger than entire European countries.

2010 GDP for urban clusters in China vs selected countries, $ billion



Urban clusters in China and their hub cities

Clusters are grouped by size, based on average 2015 urban GDP estimates

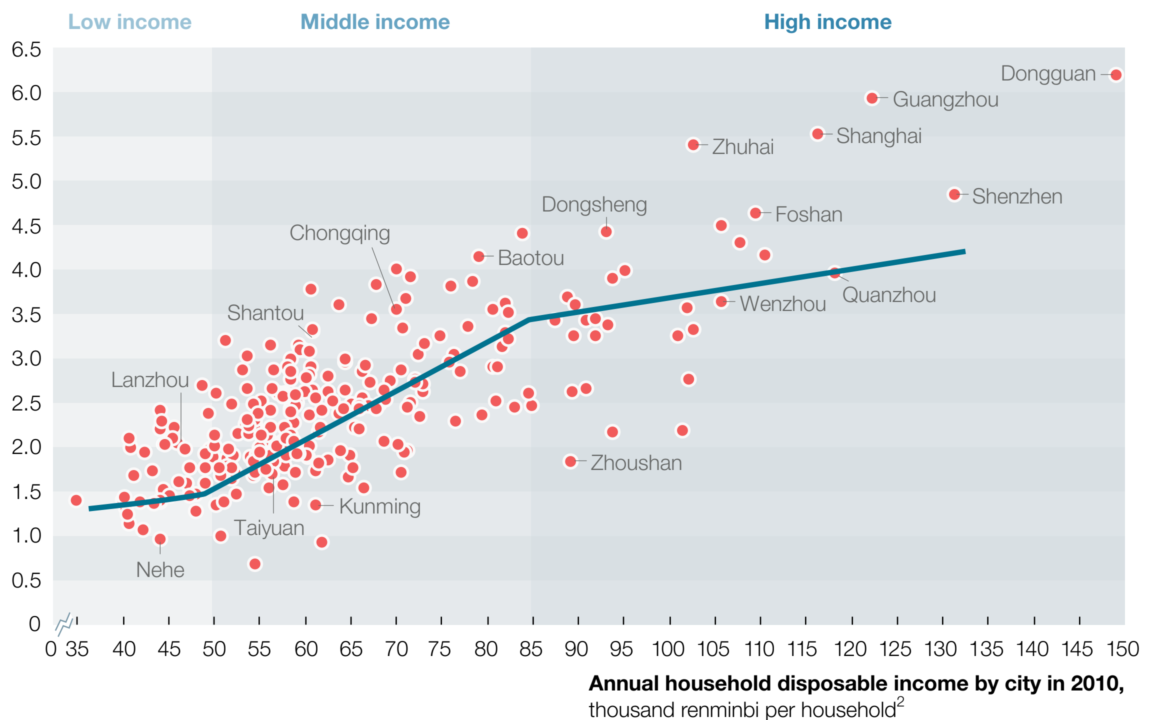
Small Large Mega

Harbin
Changchun
Shenyang
Dalian
Jingjinji cluster
Beijing
Shijiazhuang
Tianjin
Hohhot
Taiyuan
Shandong Byland cluster
Qingdao
Jinan
Zhengzhou
Xi'an
Guanzhong cluster
Nanjing
Shanghai
Hefei
Wuhan
Hangzhou
Chengdu
Chongqing
Nanchang
Fuzhou
Xiamen
Kunming
Changsha
Guangzhou
Shenzhen
Nanning

Exhibit 3

In China, consumption of household products takes off at middle-income levels, following an S-curve.

Annual consumption of household products[1] by city in 2010,
thousand renminbi per household[2]



[1] Includes white goods, furniture, and home accessories.
[2] In 2010 real renminbi; 6.77 renminbi = $1 in 2010.
Source: National Bureau of Statistics of China; McKinsey analysis

Adoption patterns of products within the same general category can vary widely, too. For example, in Beijing, purchases of refrigerators start to take off at annual incomes of $2,500 a year but slow above $6,000, while the acceleration for washing machines doesn't begin until incomes approach $10,000.

Predicting when and where consumers will move into the hot zone requires a granular understanding of technological, demographic, cultural, geographic, and regulatory trends, as well as a thorough knowledge of local distribution networks. Because many of India's households are vegetarian, for example, meat consumption there is much lower than the global average. In China, rising incomes, greater awareness of the benefits of baby formula, and concerns about the safety of low-end brands have helped make baby food the fastest-growing

product category in the supermarket sector. Between 2000 and 2010, annual sales of baby formula in China soared from RMB 6 billion to RMB 36 billion, despite the number of births remaining stagnant at 16 million a year.

3. Devise segmentation strategies for local relevance and global scale

Multinationals must refine product or service offerings to appeal to (or even shape) local tastes, be affordable, and allow the company to achieve reasonable scale quickly. Too often, multinationals paint emerging-market consumers as caricatures: at one extreme is the nouveau riche, eager to flaunt its wealth and emulate the West; at the other is the penny-pinching poor, for whom the overriding purchase criterion is getting the lowest price. With the number of mainstream consumers on the rise in emerging markets—more than half of all Chinese urban households, for example, will be solidly middle class by 2020, up from 6 percent in 2010—companies are learning to craft more nuanced product strategies.[5]

A careful segmentation strategy helped Frito-Lay capture more than 40 percent of the branded-snacks market in India. The company tailored global products, such as Lay's and Cheetos, to local tastes. Frito-Lay also created Kurkure, a cross between traditional Indian street food and Western-style potato chips. Kurkure established a new category in India and is now being sold in other countries. Attractive pricing and local feel, combined with scalable international packaging, were critical to Kurkure's success.

Leading companies also look for opportunities to scale ideas across emerging markets. Unilever, for example, markets its Pureit water filter, first launched in India in 2005, to consumers in Asia, Eastern Europe, and South Africa.

4. Radically redeploy resources for the long term

Our research shows that emerging-market companies redeploy investment across business units at much higher rates than their developed-market counterparts and are growing faster than them, even in neutral markets where neither is based. Emerging players' growth advantage persists even after controlling for the smaller base from which they start, and it also exists in developed markets.[6]

In part, the agility of emerging-market companies reflects the fact that they don't have to straddle the rich and developing worlds. By contrast, CEOs at multinationals must protect their flank at home as they pursue emerging markets that carry significant near-term risks. The investment profile of global consumer-products giants with a successful presence in emerging markets indicates an interval of approximately four to five years until investments pay off. M&A can accelerate progress. Consider Danone's purchase in Russia of Unimilk, which allowed the French food giant to offer products at a wider variety of prices. Similarly, Diageo's acquisition of a majority stake in China's Shui Jing Fang boosted the British beverage company's distribution reach.

5. Innovate to deliver value across the price spectrum

Emerging markets offer opportunities to design products and services with innovative local twists. South Korea's LG Electronics, for instance, struggled in India until the 1990s, when a change in foreign-investment rules enabled the company to invest in local design and manufacturing facilities. Local employees, recognizing that many Indians use their TVs to listen to music, urged LG to introduce new models with better speakers. To keep prices competitive, the company swapped flat-panel displays for less costly cathode-ray tubes.

[5] We define mainstream consumers in China as members of relatively well-to-do households, with annual disposable incomes of $16,000 to $34,000. For more on China's mainstream consumers, see Yuval Atsmon and Max Magni, "Meet the Chinese consumer of 2020," mckinseyquarterly.com, March 2012.

[6] For example, in emerging economies where both categories of companies are off their home turf, the growth advantage for emerging-market companies is 18.1 percent. In neutral developed markets, the advantage is 10.7 percent. The smaller size of emerging-market businesses accounts for, on average, no more than a quarter of the overall growth differential. For more on this research, see Sumit Dora, Sven Smit, and Patrick Viguerie, "Drawing a new road map for growth," mckinseyquarterly.com, April 2011 and Yuval Atsmon, Michael Kloss, and Sven Smit, "Parsing the growth advantage of emerging-market companies," mckinseyquarterly.com, May 2012.

Today, LG markets many other original products in India, such as microwaves with one-touch "Indian menu" functions. LG's product-innovation center in Bangalore is its largest outside South Korea, and the company is India's market leader in air conditioners, refrigerators, TVs, and washing machines. Others have followed LG's lead and opened research facilities in emerging markets: between 1999 and 2008, the number of multinational companies with major research centers in China rose to approximately 1,000, from fewer than 40.

Local players too are proving nimble innovators. For rural customers, China's Haier makes extra-durable washing machines that can wash vegetables as well as clothes, and refrigerators with protective metal plates and bite-proof wiring to guard against mice. Dabur, an Indian consumer-health company, combines Western science with Indian Ayurvedic medicine to offer innovative products in India and many other markets. Tanishq, part of the Tata Group, has built a fast-growing jewelry business with localized design and payment options that cater to different Indian communities and regions.

6. Build brands that resonate and inspire trust

On average, emerging-market consumers are younger, with 63 percent aged 35 or under in 2010, versus 43 percent in developed countries. And they are highly receptive to branding efforts but also far more likely than developed-market consumers to dump one brand for the next new thing.

These characteristics have significant implications for brand and marketing strategies. In emerging markets, it is critical for products to be included in consumers' initial consideration sets (the short list of brands they might purchase). Chinese consumers initially consider an average of three brands and end up purchasing one of them about 60 percent of the time, whereas consumers in the United States and Europe initially consider at least four brands and select one of them only 30 to 40 percent of the time. Emerging consumers' focus on the initial consideration set favors brands with high visibility and an aura of trust. Multinationals can build visibility with a cluster-by-cluster strategy that achieves top-of-mind recognition in a handful of selected cities before moving to the next batch. Locally focused campaigns also make it easier to generate positive word-of-mouth. McKinsey surveys find that product recommendations from friends or family are twice as important for consumers in China and nearly three times as important for consumers in Egypt as for those in the United States and Britain.

Mobile and digital channels offer additional opportunities to build trust and brand awareness. Surveys indicate Chinese consumers are more likely to trust online recommendations than TV advertisements. Brazilians are among the world's most enthusiastic tweeters; by 2010, a quarter of Internet users in Brazil had opened Twitter accounts. In India, consumers are embracing mobile devices, while low literacy rates are spurring the development of voice-activated Web sites and services.

In Beijing in 2011, the global condom brand Durex discovered the Web's extraordinary potential. During a rainstorm, a Durex social-media marketer stretched condoms over his sneakers to keep them dry. Colleagues posted photos online with the caption, "Crazy rain! Luckily I had a couple of Durex!" The post went viral, reaching 80,000 people in its first 24 hours and generating coverage in the mainstream press. At virtually no cost, the post raised brand

awareness and created a witty and irreverent brand image for Durex.[7]

7. Shape the route to market

Our research underscores the importance of the in-store experience. In China, 45 percent of consumers make purchasing decisions inside shops, compared with 24 percent in the United States. Almost a quarter of the Chinese consumers we surveyed said in-store promoters or salespeople greatly influence their decisions.

Managing the in-store experience is an enormous challenge, in part because of the fragmented retail landscape. China's 50 largest retailers have only a tenth of the market share of the 50 largest US retailers. Reaching small outlets often means negotiating bad roads and a byzantine, multitiered network of distributors and wholesalers. In these locations, local champions have clear advantages, including long-standing alliances with distributors and armies of low-paid salespeople. Multinationals should be prepared to build a much larger in-house sales operation in these countries than they have in their home markets. They should also devote far more time and energy to segmenting sales outlets and devising precise routines and checklists for monitoring the in-store experience.

In India, Unilever distributes directly to more than 1.5 million stores by deploying thousands of people for sales and in-store merchandising, many equipped with handheld devices. For priority outlets, a heavy-control model—using supervisors, "mystery shoppers," and sophisticated IT support—is often essential. Coca-Cola, long active throughout the developing world, goes to great lengths to analyze the range of retail outlets, identify the highest-priority stores, and understand differences in service requirements by outlet type. For each outlet type, Coca-Cola generates a "picture of success"—a detailed description of how its products should be displayed, promoted, and priced. In China, Coca-Cola sells directly to over 40 percent of its two million retail outlets and monitors execution in an additional 20 to 30 percent through regular visits by Coca-Cola salespeople and merchandisers. In Africa, Coca-Cola has built a network of 3,200 "microdistributors"—entrepreneurs who use pushcarts and bicycles to deliver products to hard-to-reach outlets.

Companies must also develop capabilities to serve online retailers or build their own online sales platforms. In China, online sales in many product categories are growing explosively. One of China's largest retailers, Suning, said it aims to boost online sales to 45 percent of total revenue by 2020, up from 7 percent today.

8. Organize today for the markets of tomorrow

As global companies grow bigger, the costs of coping with complexity rise sharply. Less than 40 percent of the executives at global companies surveyed recently by McKinsey's organization practice said they were better than local competitors at understanding the operating environment and customers' needs. Furthermore, adhering to standard policies and practices sometimes hinders managers of global companies in emerging markets from moving quickly to lock in early opportunities.

There's no definitive solution to these challenges, but some important principles are emerging.[8] For example, we've found that multinationals can boost their effectiveness by focusing on a few key management processes for which global consistency is advantageous, while allowing variability in others. Grouping high-growth

[7] "Durex microblog in China—surprisingly [sic] success," *Marketing* 555, January 26, 2012 (marketing555.wordpress.com).

[8] See Martin Dewhurst, Jonathan Harris, and Suzanne Heywood, "The global company's challenge," mckinseyquarterly.com, June 2012.

countries together (even when not geographically proximate) might help top management assess their needs. Clarifying the role of the corporate center is critical; too often, headquarters assumes functions that add complexity but little value. New communications technologies can help, but management must ensure they do not ensnare employees in an ever-expanding web of teleconferences in disorienting time slots, with hazy agendas and ill-defined decision rights. The farther flung the organization, the greater the virtue of simplicity.

9. Turbocharge the drive for emerging-market talent

Unskilled workers may be plentiful in emerging societies, but skilled managers are scarce and hard to retain. Global companies must develop clear value propositions for talent—an employer brand, if you will—to differentiate themselves. In South Korea, L'Oréal established itself as a top choice for female sales and marketing talent by creating greater opportunities for brand managers, improving working hours, expanding the child-care infrastructure, and adopting a more open communication style.

Deepening ties between corporate functions and emerging markets can create opportunities for local talent while enhancing organizational effectiveness. In 2010, about 200 managers from Unilever's Indian subsidiary were assigned global roles. At Yum Brands, the leader of the Indian organization reports to the global CEO.

Global companies need bold talent-development targets. We think many players should aspire to multiply the number of leaders in emerging markets tenfold—and to do that in one-tenth of the time they would take back home. In India, Reliance Group, one of the country's largest private employers, addressed a need for as many as 200 new functional leaders by recruiting a wave of 28- to 34-year-old managers and enlisting help from local business schools and management experts to design new development programs.

10. Lock in the support of key stakeholders

Successful businesses need the support of key stakeholders in government, civil society, and the local media (increasingly shaped by online commentators). We believe global companies must devote far more time and effort to building such support in emerging markets than they would in developed ones. Such efforts should include cultivating relationships with local business allies—customers, joint-venture partners, investors, and suppliers.

Amway's success in China illustrates the benefits of effective stakeholder management. In the early 2000s, the US-based direct-sales giant was almost declared an illegal business in China for violating a 1998 ban on direct selling. Amway's senior executives made numerous visits to Beijing to get to know senior leaders and explain the company's business model. It also demonstrated its commitment to China by opening stores countrywide and investing more than $200 million in manufacturing and R&D centers in China. In 2006, the Chinese government reshaped the regulation of direct sales and Amway made adjustments to its practices to comply with regulations. Today Amway is China's second-largest consumer-products business.

As senior leaders commit to priority emerging markets, they must reassure stakeholders that this commitment won't come at the expense of domestic performance. One thing that can help is developing clear metrics for tracking success in emerging markets—for example, year-on-year comparisons of market share in critical urban clusters—which can reveal any need for course corrections.

During the next 100 years, the companies looked to as the world's greatest will surely be those that win in emerging markets. Business leaders must make the changes required to win or risk being overtaken by competitors with bolder ambitions.

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