

Brand new order

# Profit or lose

Balancing the growth-profit paradox for global consumer products companies and retailers in Asia's emerging markets

Executive  
summary



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This is the executive summary for EY's forthcoming report, *Profit or lose*.

Our perspectives are supported by a survey of 253 senior Asia-based executives from global consumer products and retail companies, conducted by the Economist Intelligence Unit. In addition, we carried out 23 in-depth interviews with industry experts and senior executives from leading consumer products companies and retailers.

## Profile of survey respondents

**253**

Executives surveyed in February and March 2013

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**8**

Countries represented (China, India, Indonesia, Malaysia, Singapore, Taiwan, Thailand, Vietnam)

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**188+65**

Consumer products and retail companies included



# Executive summary

In the consumer products brand new order, the center of gravity for profitable growth has shifted to Asia.

**20%**

of consumer products companies and retailers are achieving both accretive margins and significantly high growth.

*“For the first time in our history, more than three-quarters of the increase in profitability has been coming from emerging markets. We have driven this by allocating more resources to these markets. We have also rebalanced the growth equation, looking for not only top-line growth and volume growth, but also by starting to be more demanding about productivity.”*

– Consumer products executive

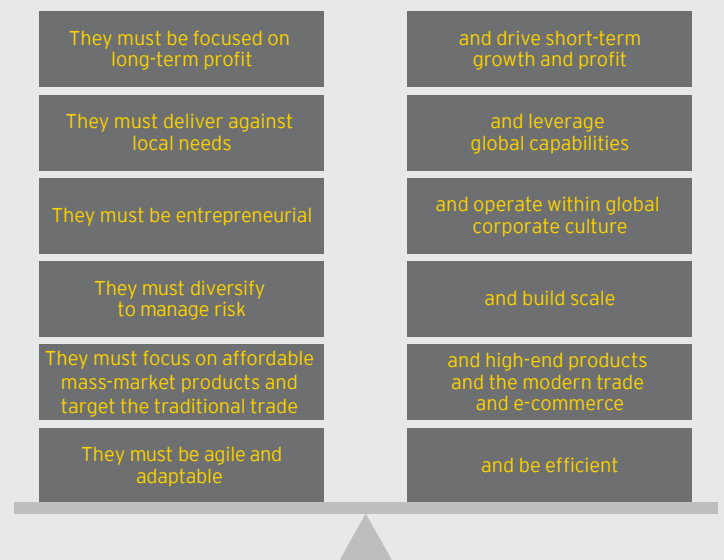
Emerging markets are not new. However, emerging markets have reached an inflection point. Against a backdrop of long-term sluggish performance in developed markets, it is no longer enough for consumer products and retail companies to focus on growing revenues and capturing market share in emerging markets. These markets now must become the engines of profitability, as well as growth. EY surveyed more than 250 consumer products and retail executives in Asia – 69% believe that emerging markets will be the main engine of growth and profits for their firm over the next three years.

The scale of Asia’s rapidly emerging middle class makes it the number one opportunity for profitable growth for consumer products and retail firms. By 2016 emerging Asia will account for almost one-quarter of the global consumer products market and generate 37% of total consumer products growth.

Just 20% of companies interviewed for our forthcoming report are classed as high performers – currently able to both generate accretive margins and sustain significantly high growth. Delivering profitable growth in Asia’s diverse and fast-changing emerging markets challenges companies to balance a number of apparent contradictions:

*“It is important not to underestimate how hard it is to turn what is an enormous opportunity into profitable growth. You need to be very, very focused about where you’re investing and what you expect from those investments and monitor in real detail the execution of steps that are required in order to deliver that.”*

– Consumer products executive





## What do companies need to do to deliver profitable growth?

To resolve these tensions and achieve profitable long-term growth in Asia's emerging markets, we believe consumer products companies and retailers need to address each of the following eight business imperatives:



**Empower local leadership to be agile** but ensure they are accountable. The global vs. local question has long been debated; we believe that the volatility and diversity of Asia's emerging markets demands an increasing level of autonomy at the local level. This is supported by our research, which found that high performers tend to give local managers greater decision rights across all aspects of the business. However, companies must be disciplined and not permit complexity that destroys value. For this reason, local managers should be accountable for ensuring that decisions are consistent within the overall framework of the company's strategic vision.

*"It's critical that our operating model puts as much decision-making accountability and agility at the market level. The accountability for performance sits within these markets, but is bounded by some parameters to which local managers must adhere."*

– **Consumer products executive**

**Disrupt traditional approaches for local relevance.** Profitable localization requires multinationals to shake off traditional mature market mindsets and operating models. Simply replicating these in Asian emerging markets is no longer sufficient due to the increasing variance of market needs as well as consumer and channel expectations. Instead, companies should disrupt their own offerings and operating models and rebuild themselves around what is needed to be locally relevant.

*"The key word in emerging markets is diversity. One common problem that MNCs face is that they think they can take a product and roll it out across multiple markets, but understanding the nuances and barriers even within the same country requires a different mindset. Instead of thinking about economies of scale, they need to think about economies of scope."*

– **Leading academic**





# Don't prioritize efficiency over value for consumers

**Be granular in understanding current and future profit pools.** Markets, channels and consumer segments are at very different stages of development across Asia. Sustaining profitable growth requires a shift of emphasis from a homogenous market share/growth mentality to understanding the real drivers of both growth and profitability at a detailed local level. To this end, leading companies are using technology to build supply chain visibility and are investing in data analytics capabilities.

*"We have a very clear view of the role of each market and each category, so our strategy across the region is very clear. Knowing whether something is a growth engine where we're investing ahead of the market, or a cash cow, allows us to be very clear about the right level of investment. It means we're always seeding for the future while delivering current performance."*

#### – Consumer products executive

**Create scale by placing bets across price tiers and channels.** Traditional scaling approaches are increasingly challenged in emerging markets due to higher than expected levels of competition and consumer variance. Companies should instead create scale by adopting a portfolio approach across multiple market niches and flanking particular segments. This approach should include balancing investments between those that are already profitable, those that will quickly reach profitability and those that are longer-term bets. High performers are more likely to participate in multiple product categories and utilize multiple channels than low performers, as confirmed by our research.

*"We want to capture a greater growth opportunity in China's lower-tier cities. We are expanding our penetration down to seventh-tier cities and, as more and more of the population shifts from rural to urban centers, that creates an underlying source of growth of the company. As these lower-tier cities evolve, they are more able to support our model."*

#### – Retail executive

**Balance efficiency with consumer immediacy.** Localization is seen as the path to growth, but it has a cost. Although a focus on efficiency has long been an important driver of profitability, companies should not prioritize this over providing value for consumers. Companies should expect and plan for the complexity, demand volatility and disruptions that are defining characteristics of emerging markets by designing supply chains that have the flexibility to both customize products and adapt quickly.

*"The critical thing for us is to understand what value means to our consumers and customers. That is the number-one priority. If we start by focusing on ways of driving efficiency and reducing costs, then we compromise that focus. It is our belief that economies of scale are overrated."*

#### – Consumer products executive

**Cluster for synergies based on common characteristics,** not just geography. Of our respondents 65% of our respondents believe that they need to manage markets as a cluster in order to maximize synergies. Companies should transcend geographical lines and instead cluster opportunities (cities, channels, consumer segments, etc.) based on their significance or common characteristics, leveraging best practices across the cluster.

*"We place strong emphasis on leveraging best practices across the whole region whether in terms of cost savings, productivity or innovation. We should not have to reinvent the wheel. Anything that we can share between countries and adapt for the local market is a good thing."*

#### – Consumer products executive

**Flex the approach as the market develops.** Operating and business models that were appropriate for one stage of development can quickly become obsolete. The fast pace of change means that companies should build the capability to flex their approach as the local market develops, such as by moving from a reliance on third-party distribution partners to building the capability in-house.

**Create a culture that mandates disciplined execution.** Talent and execution have always been differentiators, but the new importance of Asia's emerging markets means that the ability to execute in Asia is now critical to the long-term health of the overall corporation. Additionally, this shift means that local execution is now more scrutinized. For this reason, some Western multinationals are now establishing a second home in Asia by relocating category leadership to the region. Companies should focus on creating a culture that prioritizes execution and places it within a robust framework of repeatable processes and governance models.

*"It's pretty basic stuff. It isn't rocket science. The key issue is to have a few strategic lenses, and then execute the hell out of them. That's where you get your success, – by really building an ability to execute."*

#### – Consumer products executive



The ability  
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# Questions for management

- 1 Is our decision-making fast enough to take advantage of market change?
- 2 Does our consumer, shopper and route to market insight enable us to build competitive advantage?
- 3 Are our data and insights powerful enough to understand true category and channel profitability – and do we act on it?
- 4 How do we determine the right width, depth and quality of distribution coverage?
- 5 How do we manage costs without adversely impacting consumer, customer and corporate value?
- 6 How are we effectively leveraging our global and third-party capabilities?
- 7 Are we evolving our go-to-market approach to keep pace with digital disruption?
- 8 Are our view of risk and control framework still relevant for today/tomorrow?

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## How EY's Global Consumer Products Center can help your business

Consumer products companies are operating in a brand new order, a challenging environment of spiraling complexity and unprecedented change. Demand is shifting to rapid-growth markets, costs are rising, consumer behavior and expectations are evolving, and stakeholders are becoming more demanding. To succeed, companies now need to be leaner and more agile, with a relentless focus on execution. Our Global Consumer Products Center enables our worldwide network of more than 18,000 sector-focused assurance, tax, transaction and advisory professionals to share powerful insights and deep sector knowledge with businesses like yours. This intelligence, combined with our technical experience, can assist you in making more informed strategic choices and help you execute better and faster.

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