

Building brands in emerging markets

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Companies that harness word-of-mouth effects, emphasize in-store execution, and get their brands onto shoppers' short lists for initial consideration are more likely to capture the loyalty of emerging-market consumers.

As the rapid growth of emerging markets gives millions of consumers new spending power, those consumers are encountering a marketing environment every bit as complex and swiftly evolving as its counterpart in developed countries. Product choices and communication channels are exploding; so is the potential of digital platforms; and, as everywhere, consumer empowerment is on the rise.

The impact of these changes has been so profound in developed markets that three years ago, our colleague David Court and his coauthors proposed a new approach for understanding consumer behavior.¹ On the basis of research involving 20,000 consumers across five industries and three continents, our colleagues suggested replacing the traditional metaphor of a “funnel” in which consumers start at the wide end, with a number of potential brands in mind, before narrowing their choices down to a final purchase. Envisioning

¹See David Court, Dave Elzinga, Susan Mulder, and Ole Jørgen Vetvik, “The consumer decision journey,” mckinseyquarterly.com, June 2009.

consumer behavior as less of a linear march and more of a winding voyage with multiple feedback loops, our colleagues put forward an iterative framework, which they called the *consumer decision journey*, and identified four critical battlegrounds where marketers can win or lose.

These four battlegrounds are initial consideration, when a consumer first decides to buy a product or service and thinks of a few brands; active evaluation, when the consumer researches potential purchases; closure, when the consumer selects a brand at the moment of purchase; and postpurchase, when the consumer experiences the product or service selected. They are as relevant for emerging markets as they are elsewhere. As in developed markets, technology is unleashing the possibility of increasingly deep customer engagement at each phase of the journey, but with some important twists reflecting differences in the characteristics of emerging-market consumers, who generally don't have the same level of experience with brands and product categories as their developed-market counterparts do. Many are still looking to buy their first car, first television, or first package of diapers, for example.

In this article, we highlight the implications of three key differences between emerging-and developed-market consumers that we've uncovered in our research (Exhibit 1). First, harnessing the power of word of mouth is invaluable, as it seems to play a disproportionate role in the decision journeys of emerging-market consumers. Second, getting brands into a consumer's initial consideration set is even more important in emerging markets, because that phase of the journey appears to have an outsized impact on purchase decisions. Finally, companies need to place special emphasis on what happens when products reach the shelves of retailers, because the in-store phase of the consumer decision journey tends to be longer and more important in emerging markets than in developed ones.

Harnessing word of mouth through geographic focus

Word of mouth plays a more central role in the decision journeys of emerging-market consumers than for those in developed markets. When we surveyed food and beverage consumers in a range of developed and emerging markets, roughly 30 to 40 percent of the

Exhibit 1

Three factors in the consumer decision journey take on greater importance in emerging markets than in developed markets.

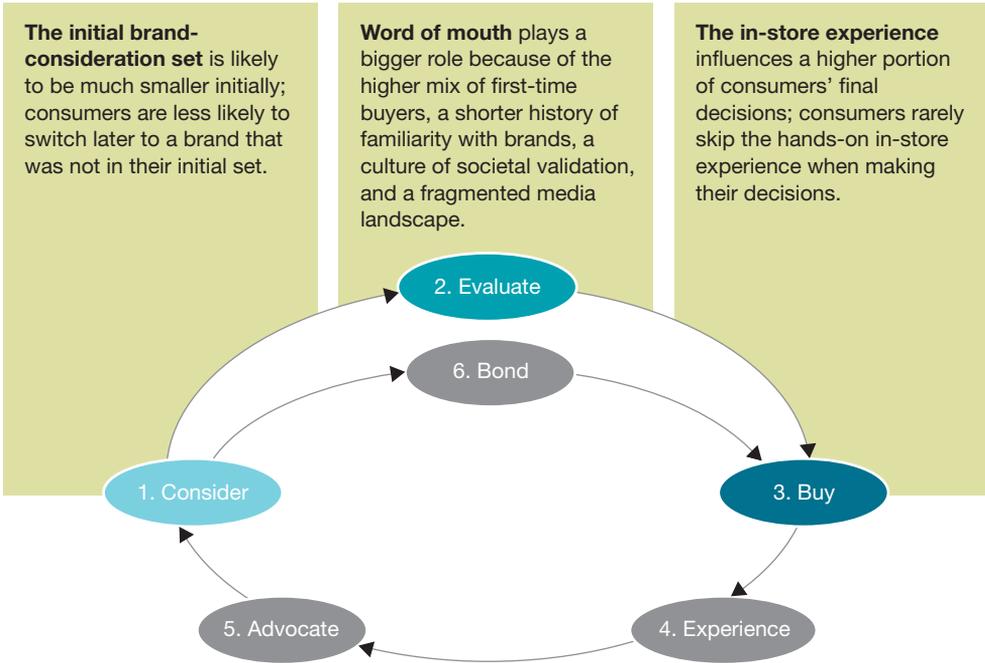
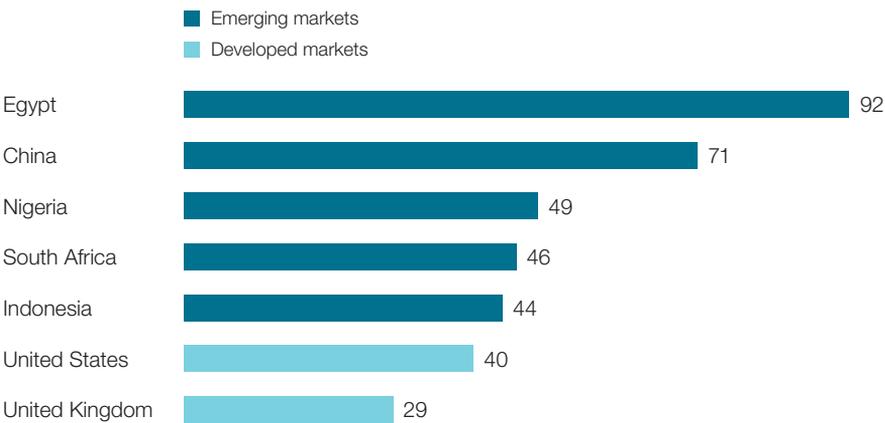


Exhibit 2

Purchase decisions of emerging-market consumers are heavily influenced by recommendations from friends and family members.

% of respondents who have received recommendations on food and beverage products from family and/or friends before purchasing



Source: McKinsey 2011 surveys of 512 South African, 4,244 Chinese, and 1,198 Indonesian consumers; McKinsey 2011 online benchmark survey of 150 UK and 250 US consumers

respondents in the United Kingdom and the United States said they received recommendations from friends or family members before making purchases. Consumers in Africa and Asia reported higher, sometimes dramatically higher, figures: more than 70 percent in China and 90 percent in Egypt, for example (Exhibit 2). Similarly, 64 percent of the Chinese respondents said they would consider recommendations from friends and family for moisturizer, compared with less than 40 percent of respondents in the United States and the United Kingdom.

An important explanation for word of mouth's outsized role is that in a land of consumer "firsts"—more than 60 percent of Chinese auto purchasers are buying their first car, and the comparable figure for laptops is 30 to 40 percent—few brands have been around long enough to ensure loyalty. Seeing a friend use a product is reassuring. Indeed, the less a consumer knows about a product and the more conspicuous the choice, the more the consumer is likely to care about the opinions of others. "The more people I know who are using a product," consumers reason, "the more confident I can be that it will not fall apart, malfunction, or otherwise embarrass me." The presence (or absence) of that confidence shapes the group of brands that consumers choose to evaluate. It is particularly influenced by the postpurchase experience of friends and family, along with their loyalty to a brand.

Often, word of mouth is a local phenomenon in emerging markets, partly because of the simple reality that emerging-market consumers generally live close to friends and family. In addition, word of mouth's digital forms, which transcend geography and are growing rapidly in emerging markets, still have more limited reach and credibility there than in developed ones. According to our annual survey of Chinese consumers, just 53 percent found online recommendations credible—a far cry from the 93 percent who trusted recommendations from friends and family. That same survey showed that only 23 percent of Chinese consumers acquired information from the Internet about products they bought. For food, beverage, and consumer electronics consumers in the United States and the United Kingdom, that figure is around 60 percent.

Word of mouth's relatively local nature means that companies in emerging markets are likely to reap higher returns if they pursue a strategy of geographic focus than if they spread marketing resources

around thinly (targeting all big cities nationwide, for example). By attaining substantial market share in a cluster of cities in close proximity, a company can unleash a virtuous cycle: once a brand reaches a tipping point—usually at least a 10 to 15 percent market share—word of mouth from additional users quickly boosts its reputation, helping it to win yet more market share, without necessarily requiring higher marketing expenditures.

In China, the bottled water brand C'estbon has a very small national share, but a 25 percent to 30 percent market share, on average, in the southern part of the country. Most of the brand's sales are to small stores and restaurants, where it has a dominant 45 to 50 percent share in that region. In India, this approach worked for P&G, with its Whisper brand of sanitary napkins, which the company introduced in targeted local communities by offering training and free samples to adolescent girls in schools. After successfully creating word of mouth in those communities, P&G gradually expanded the campaign to reach more than two million girls at 150,000 schools. The result was a drastic reduction in the use of cloth-based protection—to 6 percent, from 66 percent, among the targeted group, according to the company's assessment.



Emerging-market consumers have a penchant for visiting multiple stores multiple times and for collecting information methodically, especially when they purchase big-ticket items.

Building brands that get considered

Emerging-market consumers tend to consider smaller sets of brands initially and, compared with consumers elsewhere, are less likely to switch later to a brand that was not in their initial set. For example, research we conducted in nine product categories (including food and beverages, consumer electronics, and home and personal-care products), indicated that Chinese consumers initially consider an average of three brands and purchase one of them about 60 percent of the time. The comparable figures in the United States and Europe are four brands, with a purchase rate of 30 to 40 percent.

To include a brand in the initial consideration set, consumers must obviously be aware of it, so achieving visibility through advertising on TV and other media is an essential first step. Here again, geographic focus is critical. Emerging-market consumers not only generally live close to friends and family but also tend to view local TV channels and read local newspapers rather than national ones. (China, for example, has about 3,000 mostly local TV stations.) Gaining a high share of voice through local outlets in targeted geographies can help create a sense that a company's priority brands are in the forefront—which is valuable, because status-conscious, relatively inexperienced emerging-market consumers tend to prefer brands they perceive as leaders.

But spending heavily on advertising alone is not sufficient to ensure consideration. Companies also need to reach these consumers with messages that have been tailored to suit local market preferences and concerns, and are likely to be trusted. Testing messages—even those that have delivered powerful results in developed markets—is a key part of that equation. When Acer China tested its slogan “Simplify my life” in China, as part of a campaign emphasizing the low cost of its PCs, the message didn't resonate. For typical Chinese consumers, a PC is a very big-ticket purchase, so they care chiefly about durability. Chinese purchasers of PCs also tend to be entertainment rather than productivity oriented. In focus groups, it became clear that Acer's intended message of “great value for money” was arousing suspicion that the company's products might not perform reliably. A change in Acer's message to stress reliability rather than simplicity and productivity helped the company to build a more relevant and trusted brand, to get onto the short lists of more consumers, and to double its market share in less than two years.

Winning the in-store battle

The in-store phase of the consumer decision journey tends to be longer and more important in emerging markets than in developed ones. Emerging-market consumers have a penchant for visiting multiple stores multiple times and for collecting information methodically, especially when they purchase big-ticket items. The typical Chinese decision journey in one major consumer electronics category takes at least two months and involves more than four store visits. These consumers like to test products, interact with sales reps to collect product information, and negotiate with retailers to get the best deal.

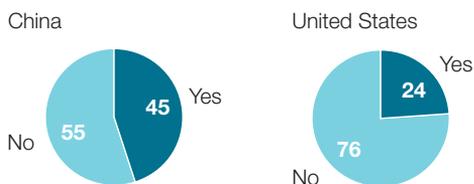
Exhibit 3

In-store execution heavily influences consumer decisions in China.

% of respondents¹

China compared with United States

“I find myself leaving the store with a different brand/product than I planned because of the suggestion of the in-store salesman.”



% of respondents

Comparison of various products within China

“I consider several brands and make the final decision in the store among a set of predetermined brands.”



¹Yes = respondents who strongly or somewhat agree; no = respondents who strongly or somewhat disagree.

Source: 2008 McKinsey survey of 5,372 Chinese consumers and ~300 US consumers

As a result, in emerging markets there is significantly more room to influence and shape consumer decisions at the moment of purchase. We first quantified this distinction in 2008 (Exhibit 3). This finding has been reinforced by subsequent research revealing, for example, that the in-store experience is by far the biggest factor in finalizing emerging-market consumers' flat-screen-TV purchase decisions and that Chinese consumers are almost two times more likely to switch brand preferences while shopping for fast-moving consumer goods than US consumers are.

Important as it is to control the in-store experience, the challenge can hardly be overstated. Products may be sold in tens of thousands of retail outlets after going through two or three layers of distributors. Companies often have limited visibility into what happens at the moment of purchase. Inconsistent merchandising, packaging, and

in-store promotions can easily overshadow superior products and carefully crafted advertising strategies.

The first step in avoiding such waste is gaining a clear view of the retail landscape—how it is segmented and where the priority outlets are. Companies must then develop tailored control systems based on incentive schemes, collaboration with distributors, and retail-management programs. For priority outlets, companies must often deploy a heavy-control model using supervisors and mystery shoppers with supporting IT infrastructure to ensure that the performance of stores is visible enough to assess.

Unilever deploys massive resources in India to cover 1.5 million stores in tens of thousands of villages. Many of the salespeople carry a handheld device so that they can book replenishment orders anywhere, anytime, and synch their data with distributors. In Indonesia, Coca-Cola sells 40 percent of its volume directly to local retailers, with whom it collaborates closely. The lion's share of Coke's remaining Indonesian volume is sold to wholesalers with fewer than five employees and less than \$100,000 in annual revenues. These wholesalers, in turn, distribute Coke products to small retailers. To improve in-store execution in the many outlets Coca-Cola doesn't serve directly, the company deploys additional support, including supplying them with free coolers and dispensers and providing sales effectiveness training for merchants (for more on the in-store battle, see "From oxcart to Wal-Mart: Four keys to reaching emerging-market consumers," forthcoming on mckinseyquarterly.com).



Although these principles—harnessing word of mouth, getting brands into a consumer's initial consideration set, and emphasizing in-store execution—may sound obvious, acting on them is not easy. It requires bold investment decisions, efforts to build the skills of local teams, and the courage to operate in ways that are fundamentally different from what headquarters might regard as normal. Fortunately, the potential rewards are commensurate. When emerging-market consumers perceive a brand consistently and positively across the major touch points, including friends and family and the in-store experience, they are far more likely to choose that brand, profiting companies that spend smartly rather than heavily. ○

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Luxury brands have set their eyes on emerging markets, like China's tier 2 and 3 cities, and India, where consumers with newfound access to money and information are becoming avid purveyors and consumers of luxury goods and experiences. Yet, there is no one size fits all strategy that brands use when it comes to increasing their market share in these emerging markets. Grounded on the insights they have gathered through their own research initiatives; brands implement different marketing and communication strategies which combine the nuances of the market and their own DNA and strengths. Execut