



David J. Kalinowski, Proactive Worldwide, Inc.

Have you worked for a company that entered into an emerging market, but things didn't quite go as planned? Perhaps performance outputs were not as expected – or unanticipated regulatory hurdles appeared. Sure, the problems might have been caused by poor execution, but a successful entrance into an emerging market that produces positive, sustainable, long-term results depends most heavily on one critical driver: Local Strategic Intelligence (LSI).

Besides reaffirming the essential role of building a cross-functional intelligence team in emerging markets, this article will challenge you to evaluate the approach you and your company are taking to enter or operate in an emerging market and whether or not it is delivering the best probability for success. Operational success in an emerging market requires the right strategy, and the right strategy requires sound LSI.

SIDEBAR 1: CHARACTERISTICS OF AN EMERGING MARKET

- Transitioning from a closed economy to an open market economy.
- Implementing economic reforms; more accountability in the system.
- Increasing in both local and foreign investment (portfolio and direct).
- Rising production levels, and thus increasing GDP.
- Stabilizing the political climate.
- Shifting balance of economic power from sellers to buyers.

This article will also outline some concrete steps you can take to optimize resources, maximize assets, extend product life cycles and add new business growth. Some companies may have been successful in entering an emerging market without LSI, but they were likely lucky – and we all know that luck eventually runs out. Just consider how much more successful a company can be if evidence-based, local strategic intelligence drives management’s decisions. These are topics that my business partner, Gary Maag, and I have talked about for several years (Kalinowski & Maag, 2010).

We all work in a dynamic business environment where the historical concepts of ‘rebirth’ and ‘evolution’ are relevant in new ways. To survive, individuals who craft strategy for their organizations are looking for new ways to conduct their business by integrating vertically, expanding horizontally, reinventing industries, redefining markets, creating new focal points, identifying pressure points, capitalizing on under-the-radar opportunities, establishing the game changers, and looking for ways to reset the playing field. Or, as Michael Porter emphasizes, “strategists need to determine what unique position will a company be able to achieve ... what will be the advantage at the end of the day?” (Porter, 1996).

EMERGING MARKETS DEFINED

The term ‘emerging markets’ was coined by economist Antoine van Agtmael of the International Finance Corporation of the World Bank (van Agtmael 1981). Definitions vary:

- Most define emerging markets as nations with social or business activity in the process of rapid growth and industrialization.
- The World Bank defines emerging markets as low-income to middle-income countries with GNI per capita between \$975 and \$11,900.
- Dr. Vladimir Kvint, president of the International Academy of Emerging Markets, defines an emerging market country as a society transitioning from a dictatorship to a free market-oriented economy, with increasing economic freedom, gradual integration within the global marketplace, an expanding middle class, improving standards of living and social stability, and an increase in cooperation with multilateral institutions.

Emerging markets tend to share certain common characteristics (see Sidebar 1). The twenty-one countries listed in Sidebar 2 are classified as emerging markets.

STRATEGIES MUST EVOLVE

There are countless stories of companies that enter into an emerging market because they think:

- Costs will be reduced.
- Customers will buy their existing product because it sold well in other parts of the world.
- “We need to be there because our competition is there, so there must be opportunity.”

SIDEBAR 2: EMERGING MARKETS

Brazil	India	Poland
Chile	Indonesia	Russia
China	Korea	South Africa
Colombia	Malaysia	South Korea
Czech Republic	Morocco	Taiwan
Egypt	Peru	Thailand
Hungary	Philippines	Turkey

* Source: MSCI Barra, May 2010

At Proactive Worldwide, we have worked with some Fortune 100 companies that have put their emerging market strategy together many times at the last minute and often with relatively minimal insight about those markets, their customers, or their competitors in the region. The problem? They relied too much on anecdotal information during the decision-making process, rather than local strategic intelligence.

They also failed to take a key factor into account. Have you read *7 Deadly Scenarios* (Krepinevich, 2010)? It's a bit morbid, but some of the learnings apply to business. The primary message centers on the reality that *tomorrow does not necessarily look like an upgraded version of today*. My business partner and I have had discussions with business executives and thought leaders of some of the world's most respected companies, and they confirm one of the book's premises – most companies still operate under a business model and mindset that serves today's needs but not necessarily those of tomorrow. Having a “build-it-and-they-will-buy-it” mentality for an emerging market might have worked a decade or so ago, but that thinking no longer produces the best results.

Krepinevich states that breakthrough success demands implementing strategy in ways that make it possible to adapt and change it if the future does not turn out as expected. In the end, survival of the fittest depends on strategic adaptation and continual improvement. Executives not only need to look at the ways they make decisions but also more seriously consider the need for LSI in making decisions that involve entering or operating in an emerging market, rather than depending on anecdotal data or gut feeling.

LOCAL STRATEGIC INTELLIGENCE DRIVES SUCCESS

Local strategic intelligence is an organized, targeted, timely, legal and ethical process to gather, synthesize, and analyze local country information on the external operating environment to produce actionable insight. Executives usually examine internal perspectives when evaluating an emerging market entrance. However, when LSI is combined with internal company information, business leaders gain a 360-degree view of their total decision-making surroundings. Porter asserts that in determining strategy we have to ask, “how are we going to be unique, how are we going to have an advantage, and how are we going to sustain that advantage over time?” (2008).

Having local strategic intelligence is critical to creating a winning strategy for an emerging market. When I ask workshop attendees what they view as the most critical driver of success when entering into a local emerging market, they provide several different answers:

- Ample financial resources
- Appropriate timing of entrance
- Competent sales people
- Effective leadership
- Established business relationships with local suppliers
- Potential customers
- Valuable product/service

However, I assert that having excellent local strategic intelligence is the fundamental, root cause of success in emerging markets. Money is important, but without knowing how to invest and allocate it, cash doesn't matter. Having a great product or service is important, but does it address the market's unique and specific local needs? Timing of entry into a new market is crucial, but how do you know the right timing if you don't have the right indicators, which can only be obtained through LSI?

Companies are under constant pressure to deliver higher quality products with the proper level of features and functionality, or to create comparable value at the lowest possible price to the customer while maintaining margin goals. For service providers, the goal is to deliver solutions that not only solve problems specific to that particular market but also provide customers with the highest possible return on investment (ROI) for the entire initiative, including both products and services. Some product-based companies now find themselves also having to be solution providers, which adds another level of complexity.

Distributing resources, making investments, and gaining revenue, share and profitability is much more complex in developing nations now than in decades past. Furthermore, what may have worked in developed countries may not work in today's emerging markets.

SIDEBAR 3: LOCAL STRATEGIC INTELLIGENCE IMPACT AND VALUE

Organizational impact:

- Optimize your *current* business activity.
- Develop your *current* business in *new* areas.
- Grow *new* business in *new* areas.

Decision-making impact:

- Accelerate decision making and trigger action.
- Avoid surprises.
- Better understand local customer/market needs.
- Execute and adapt strategy more effectively.
- Form critical external source networks.
- Identify pressure points.
- Identify game-changers.
- Improve collaboration among departments.
- Improve short- and long-term planning.
- Leverage internal corporate knowledge.
- Maximize assets and resource allocation.
- Mitigate risk by letting you know “what you *don't* know.”
- Optimize brand and business strategy.

- Identify the right local partners or acquisition candidates and act early.
- Team up with local lobbying groups to persuade policy influencers.
- Use social networking to educate consumers about your brand.

LSI can also help identify *game changers* – actions, often revolutionary, that change the rules – by:

- Shifting from “glocalization” to “reverse innovation.”
- Establishing a new pricing or margin model.
- Introducing a product/service that betters mankind (a “better mousetrap”).
- Creating new products/services that start a completely new market.

IMPACT OF LOCAL STRATEGIC INTELLIGENCE

A Harvard Business Review article explained how GE created a local growth team (LGT) model for its ultrasound business and used a process GE calls *reverse innovation* to originally develop new products in emerging economies and then sell those in the US (Immelt et al., 2009). The authors noted that reverse innovation is the opposite of the *glocalization* approach that GE and numerous other manufacturers in wealthy countries have used for years. Products developed in the home market were then distributed to emerging markets, with some adjustments to meet local needs. The authors pointed out that “glocalization worked fine in an era when rich countries accounted for the vast majority of the market and other countries didn’t offer much opportunity. But those days are gone.”

Because of the creation of local growth teams, GE’s ultrasound business unit could make strategic and operational decisions based on what it learned about the local market, local problems, local culture and all elements of the entire value chain. Even though the information being learned about the emerging market wasn’t necessarily called “local strategic intelligence,” the knowledge the local growth team gained and shared with management to make key decisions was a key factor in why GE’s business in China in 2009 grew 25% during a global recession.

We have worked with many clients who have used local strategic intelligence to gain an advantage, but an overwhelming number do not have a systematized way to

BENEFITS OF LOCAL STRATEGIC INTELLIGENCE

We must take a serious look at the kind of effort we put into evaluating the upsides and downsides of operating in an emerging market. We must bridge the gap between *guessing* and *knowing*. The way to do that is through acquiring accurate local strategic intelligence.

Possessing local strategic intelligence can both impact your organization and add value to executive decision-making (see Sidebar 3).

PRESSURE POINTS AND GAME CHANGERS

Local strategic intelligence helps your company identify *pressure points* and take game-changing action. A pressure point is a sensitive, crucial area or issue against which concerted tactics can be used (and legitimate pain caused) to achieve your goals. Pressure points can be combined with LSI to:

- Affect supply chains relationships.
- Boost raw material inventory and make it scarcer for others to obtain.

SIDEBAR 4: A TALE OF TWO COMPANIES: HOW LSI MADE A DIFFERENCE

Client X used LSI and benefited from it as they prepared to launch a medical device product in an emerging market. Through the local source network, they learned in advance about changes in certain guidelines and which organizations influenced those guidelines. They aggressively marketed to the influencing body and educated it on their advanced medical device. Ultimately, this group influenced the guidelines and encouraged the use of the more advanced solution. When the client entered the market, they could assert they met the new guidelines, thus helping to ease their entrance.

Client Z didn't use LSI; they entered a market simply because one executive said they should be there – and no one challenged him because of internal politics and a fear of conflict. This company opened up brick and mortar stores in this emerging market, believing that people wanted to be able to get a variety of products all under one roof. The company didn't realize until nearly 6 months into operation that people in this country mostly drive scooters and don't mind going to 4-5 different stores, grabbing what they need, throwing it in their basket and going to the next store. This huge factor had been overlooked, but it would have been discovered if LSI had been factored into the decision-making process early on. The company eventually closed the stores and exited the market.

gather, analyze, and disseminate local intelligence into the hands of the decision-makers in a timely manner to help their executives make the best decisions. See Sidebar 4 for contrasting examples of the impact on companies of their use (or non-use) of LSI.

CREATING A LOCAL STRATEGIC INTELLIGENCE TEAM

Patrick Lencioni, in *Four Obsessions of an Extraordinary Executive*, outlines a framework leaders need to follow to build a healthy organization (Lencioni, 2000). The four steps he describes are:

- Build and maintain a cohesive, trusted leadership team.
- Create organizational clarity.
- Over-communicate the plan.
- Reinforce the message.

Leaders of a corporate intelligence function can adapt Lencioni's model to the concept of local strategic intelligence.

Team building

Start by forming an internal, cross-functional team that includes, but is not limited to, personnel from finance, legal/regulatory, marketing, operations, sales and supply chain/procurement. Many of these groups are involved at different phases when entering an emerging market, and each group has its own unique contribution. Therefore, share collective knowledge as part of the intelligence effort.

Then add external team members who reside in the local market. They can share insight on the local dynamics that might otherwise be missed. Recruit the following types of groups to be part of your intelligence team:

SIDEBAR 5: STANDARD PROCEDURES FOR LOCAL SECONDARY AND PRIMARY SOURCE RESEARCH

- Create simple processes.
- Clarify mission, purpose, strategy and values of the local team.
- Obtain all applicable published data.
- Gather unpublished intelligence.
- Follow company legal and ethical policies.
- Gain perspectives from local, external source networks.
- Use effective elicitation techniques.
- Triangulate findings.
- Communicate regularly with key stakeholders.
- Report key findings in a timely manner.
- Feed intelligence into an early warning program.
- Analyze findings to convert information into intelligence.

customers, government officials, IT partners, newspaper/magazine/editorial writers, suppliers, trade association, universities, and third party intelligence firms with access to local market information.

Organizational clarity

Second, create team clarity (as opposed to Lencioni's organizational clarity) by developing distinct standard operating procedures for local secondary and primary source research (see Sidebar 5).

Communicating and reinforcing the message

Third, as the competitive intelligence leader, use human source networks to reinforce the message that local strategic intelligence improves decision making. This action combines steps 3 and 4 from Lencioni. Mark Foster, group chief executive/global markets and management consulting at Accenture, states:

Locating and orchestrating the right global connections outside the organization becomes, perhaps paradoxically, the key to achieving an ever closer focus on the competitive essence of the business. Excellence in networks, relationships and data-driven insight will be required... Broadening the field of dialogue takes time and effort; customer insight requires work. Yet these investments will help define competitive advantage for the future. (Foster, 2010)

However, note that success is not achieved solely with data-driven insight; it is achieved through evidence-based intelligence that drives strategic decisions. Often primary source research is critical in emerging markets because in many instances no credible published data is available, and relying on your internal network is insufficient. Bettina Buchel, Professor of Strategy and Organization at IMD in Switzerland, states:

To overcome blind spots and obtain higher levels of strategic intelligence, individuals should expand their networks and ensure that they are as diverse as possible; if your main sources of information all have similar backgrounds, you are unlikely to get the breadth and depth of ideas needed to support genuine innovation for growth. (Buchel, 2010)

CONCLUSION

Exploiting local strategic intelligence is a fundamental success driver that positions a company for success in an emerging market. It takes time to create the necessary network, but it is far better to engage in up-front planning than to enter a market only to quickly realize that you need to cut your losses and depart. In the end, a cross-functional, local intelligence team that includes internal and external resources to capture, analyze, and disseminate local strategic intelligence is essential to spot new market considerations, identify pressure points, recognize game changers, optimize resource allocation, maximize assets, and extend product life cycles.

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David J. Kalinowski is the President & COO of Proactive Worldwide, Inc. (PWW), which he co-founded in 1995. PWW is a global decision support research and consulting firm based in Schaumburg, IL and with wholly foreign owned offices in Rome and Shanghai. As a SCIP Catalyst Award recipient and a Life Member of SCIP, David has been dedicated to the corporate intelligence arena for 22 years, often speaking and writing on topics related to the industry. He can be reached at +1 888-925-9125 or davidk@proactiveworldwide.com. Visit www.ProactiveWorldwide.com.