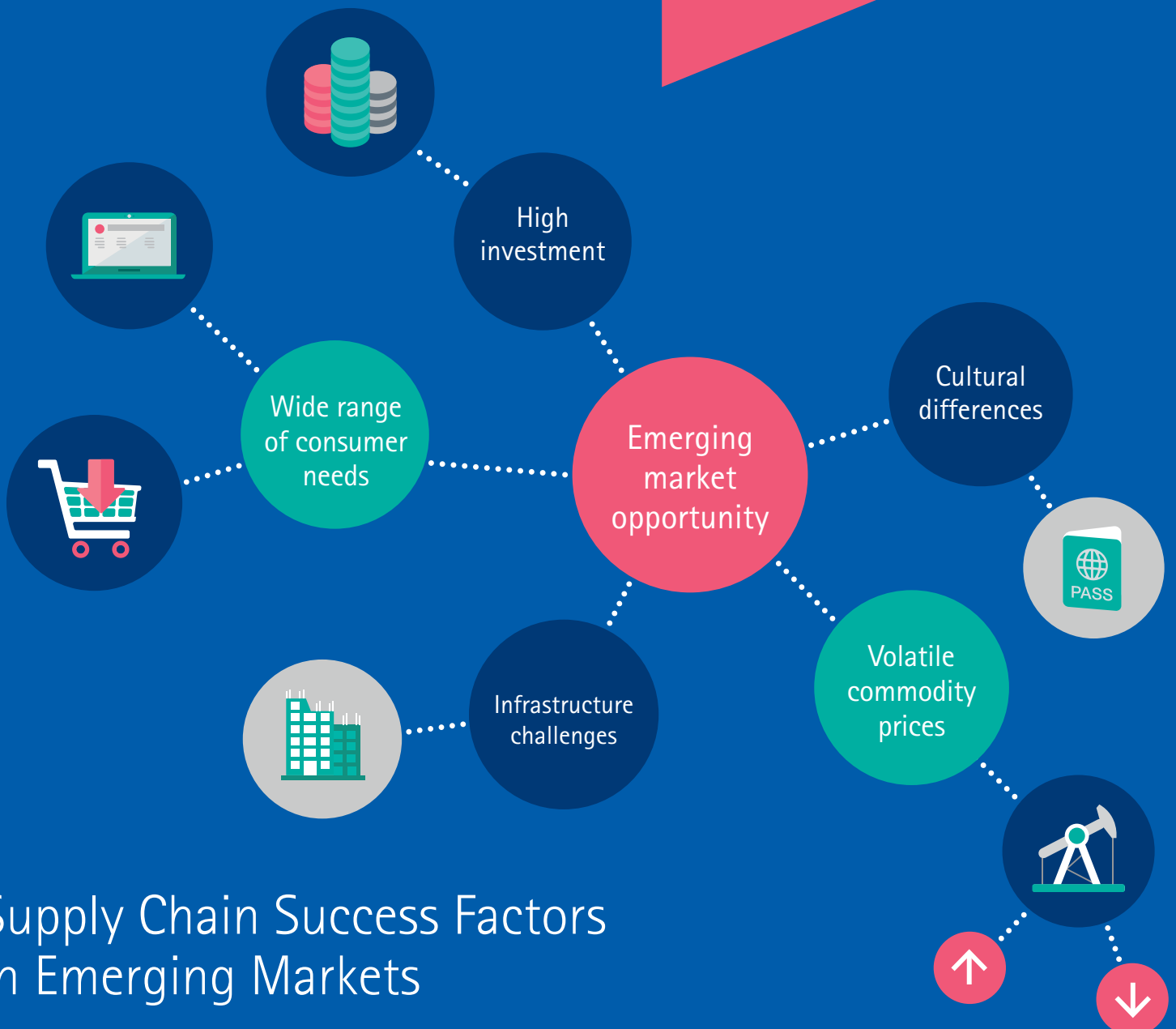


High performance. Delivered.



# Supply Chain Success Factors in Emerging Markets

Accenture Global Operations Megatrends Study



# Supply Chain Success Factors in Emerging Markets

Global organizations are stepping up their efforts to expand their presence in emerging markets to capitalize on growth opportunities in those regions. Yet success in emerging markets requires the right operational support, which often requires making significant changes to the supply chain to accommodate the unique challenges such markets pose.

New research from Accenture reveals that, while a vast majority of companies have experienced some growth from emerging markets, a subset of companies have employed a strategic mix of operational practices that has enabled them to achieve greater than 20 percent growth in their emerging markets.

These leaders' success can largely be attributed to four major supply chain practices: using a broad mix of operational approaches; focusing on quality and market knowledge in addition to operational costs; extensively deploying technology to help increase efficiency, improve flexibility, and enhance decision making; and continuing to invest aggressively in supply chain operations to keep pace with changing market dynamics.

Aware of the significant growth opportunities in emerging markets, global organizations are working hard to gain a foothold in such countries—especially in China, India, and Brazil. But expansion into these new and often unpredictable markets is neither easy nor inexpensive. In fact, companies typically encounter myriad execution challenges that can sink the efforts of even the best-managed enterprises. That's why it is imperative for expansion-minded organizations to determine the operations strategy that will enhance their chances of success in emerging markets.

Accenture recently explored this important topic in a comprehensive research effort, looking to reveal the strategic practices leaders employ to achieve success. We surveyed more than 1,000 senior executives mostly from large global companies to get their thoughts on the importance of expanding in emerging markets to drive growth, the results of their efforts to date, and the supply chain practices that were most effective in those efforts. (For more on survey participants and research methodology, see "About the Research.")

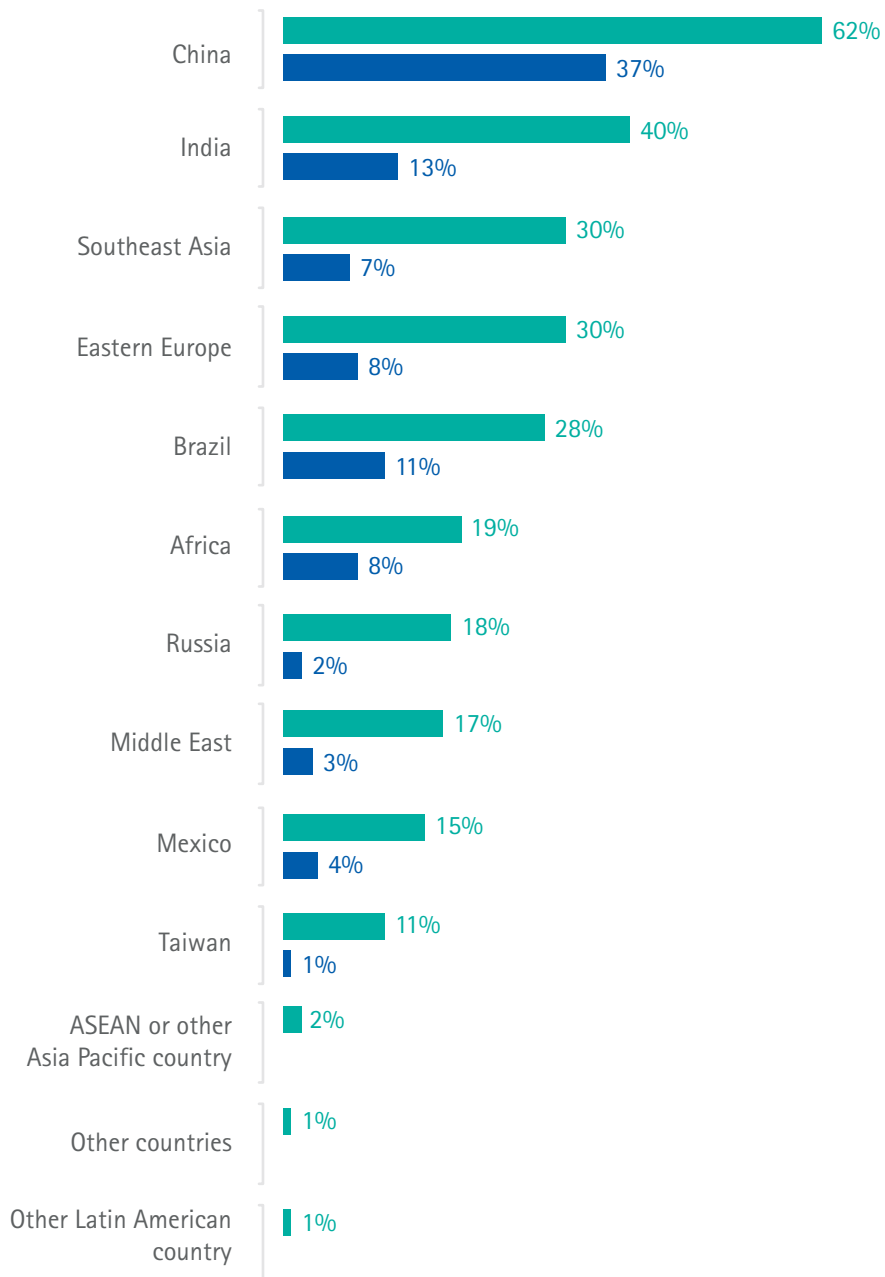
Expansion-minded organizations must determine the operations strategy that will enhance their chances of success in emerging markets.

# Global organizations are seeing growth in emerging markets

Our research found that nearly all companies (95 percent) participating in our survey have experienced growth from emerging markets in the past three years. China and India were most likely to be cited by participants as one of their top three sources of that growth, followed by Southeast Asia and Eastern Europe. Close behind was Brazil, followed by Africa, Russia, and the Middle East (Figure 1).

**Figure 1: Top three emerging markets in which companies have experienced growth in the past three years**

■ Within Top 3 ■ Top 1

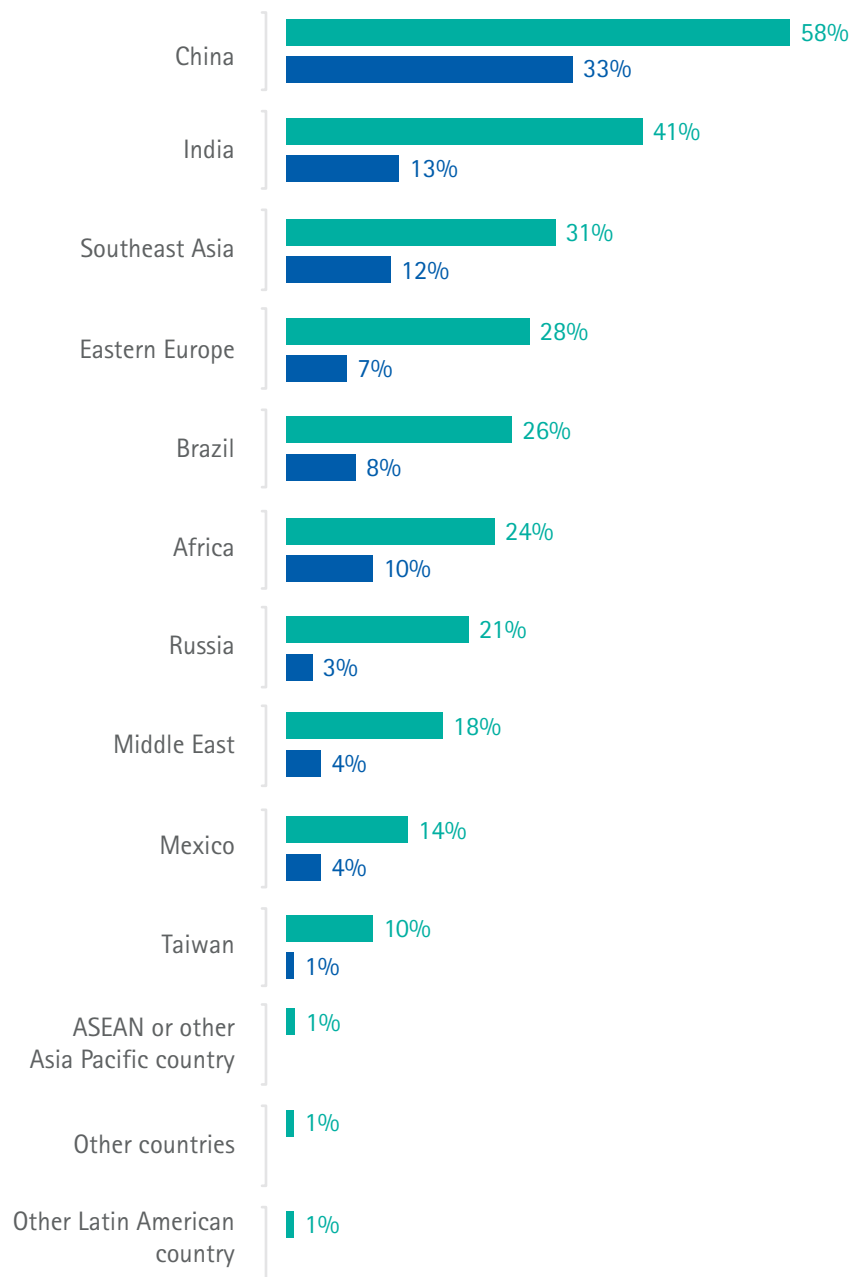


In the next three years, China and India are expected to remain among the top-three emerging markets for growth for the largest percentage of companies (Figure 2). Brazil, Africa, Russia and the Middle East all seem poised to strengthen in importance, while Southeast Asia and Eastern Europe appear set to weaken slightly.

For the 5 percent of companies that have experienced no growth in emerging markets, the two most common reasons were either their products or services did not align with emerging markets requirements or they felt they had more potential to tap in their existing markets and, thus, did not make emerging markets a priority for investment.

**Figure 2: Top three emerging markets for which companies project growth in the next three years**

■ Within Top 3 ■ Top 1



## Four supply chain practices correlate strongly with emerging-market success

While nearly all companies said they have grown in emerging markets, we found that companies with higher-performing supply chains were more likely to generate stronger growth than companies with average or low-performing supply chains. Indeed, this group of leaders, in which the supply chain has exceeded expectations in supporting emerging-market initiatives (Figure 3), are more than twice as likely as others—58 percent versus 22 percent—to say their supply chain organization has helped the enterprise achieve greater than 20 percent growth in their emerging markets.

What distinguishes these leaders from other companies? Based on Accenture's research and analyses of the characteristics of companies with supply chains that have exceeded expectations, we identified four major supply chain practices that leaders are more likely than other organizations to employ—and that are especially important in driving growth and success in emerging markets.

### Leaders use a broad mix of approaches to provide supply chain support of emerging-market initiatives.

There are myriad ways the supply chain can service a company's priority emerging markets. Leaders are more likely than others to use all of them (Figure 4)—especially investing in assets in the regions, leveraging their existing operations, and hiring local talent to manage their operations.

In other words, there is no one right answer, no supply chain “silver bullet” for emerging-market success. Instead, a portfolio of strategies is needed, to be deployed depending on the circumstance and market.

Accenture has found several key questions can help a company determine which approaches would be most effective<sup>1</sup>:

- How well do we understand the market being considered? Do we “know what we don't know”?
- Do we have the skills and patience to pursue a “go-it-alone” strategy? What are the implications if we fail?
- Are there local companies with which we could partner? Do we understand their goals, priorities and decision making process? What is our track record in similar partnerships elsewhere and what have we learned from them?

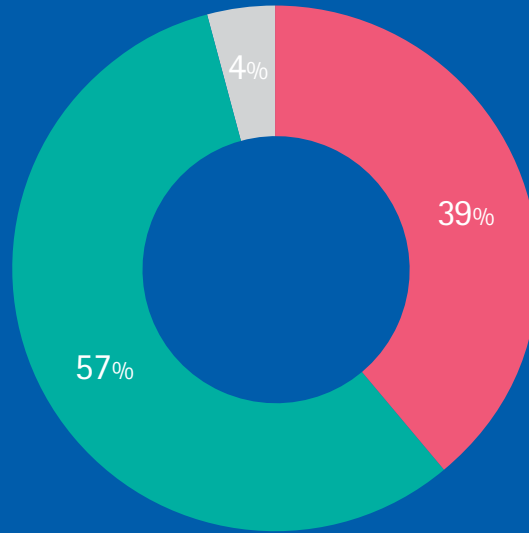
- What can we learn from the experiences of other foreign companies entering this market?
- What risks do we run of losing control of our brand, product and service quality, or intellectual property in this market, and how can we minimize these risks?
- Are there attractive acquisition targets available? What is our track record in mergers and acquisitions and what have we learned from these experiences?

Among companies in our survey, acquisitions are typically the least-popular option as a mechanism for entering an emerging market. However, that doesn't mean they aren't happening. In fact, Accenture is seeing increasing interest in M&A—particularly in the consumer products sector, where the market is still highly fragmented and small yet valuable companies can help accelerate companies' entry into market-specific categories. Regardless of country or market segment being considered, though, Accenture has found that companies considering an acquisition to help it enter a market must be very clear about what they are buying into and lock in value through retention payments or other means such as distribution and supply contracts.

...we found that companies with higher-performing supply chains were more likely to generate stronger growth than companies with average or low-performing supply chains.

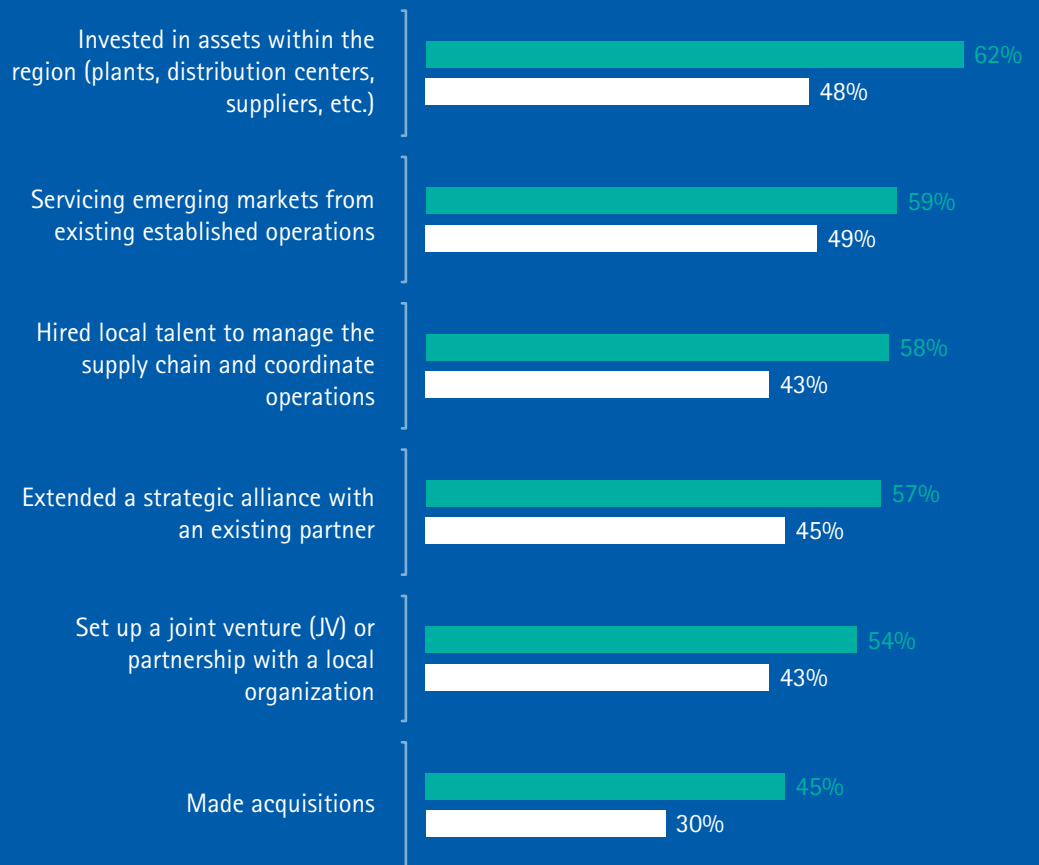
**Figure 3:** Supply chain organization's execution against emerging market initiatives

- Exceeding expectations
- Meeting expectations
- Below Expectations



**Figure 4:** Leaders are more likely to use the full range of approaches to support emerging-market initiatives

- Leaders
- Others



**Leaders complement a low-cost structure with a focus on quality and market knowledge to access new markets and provide differentiation.**

Keeping a tight rein on costs is, of course, critical to profitability. However, success in emerging markets requires much more than a lean cost structure.

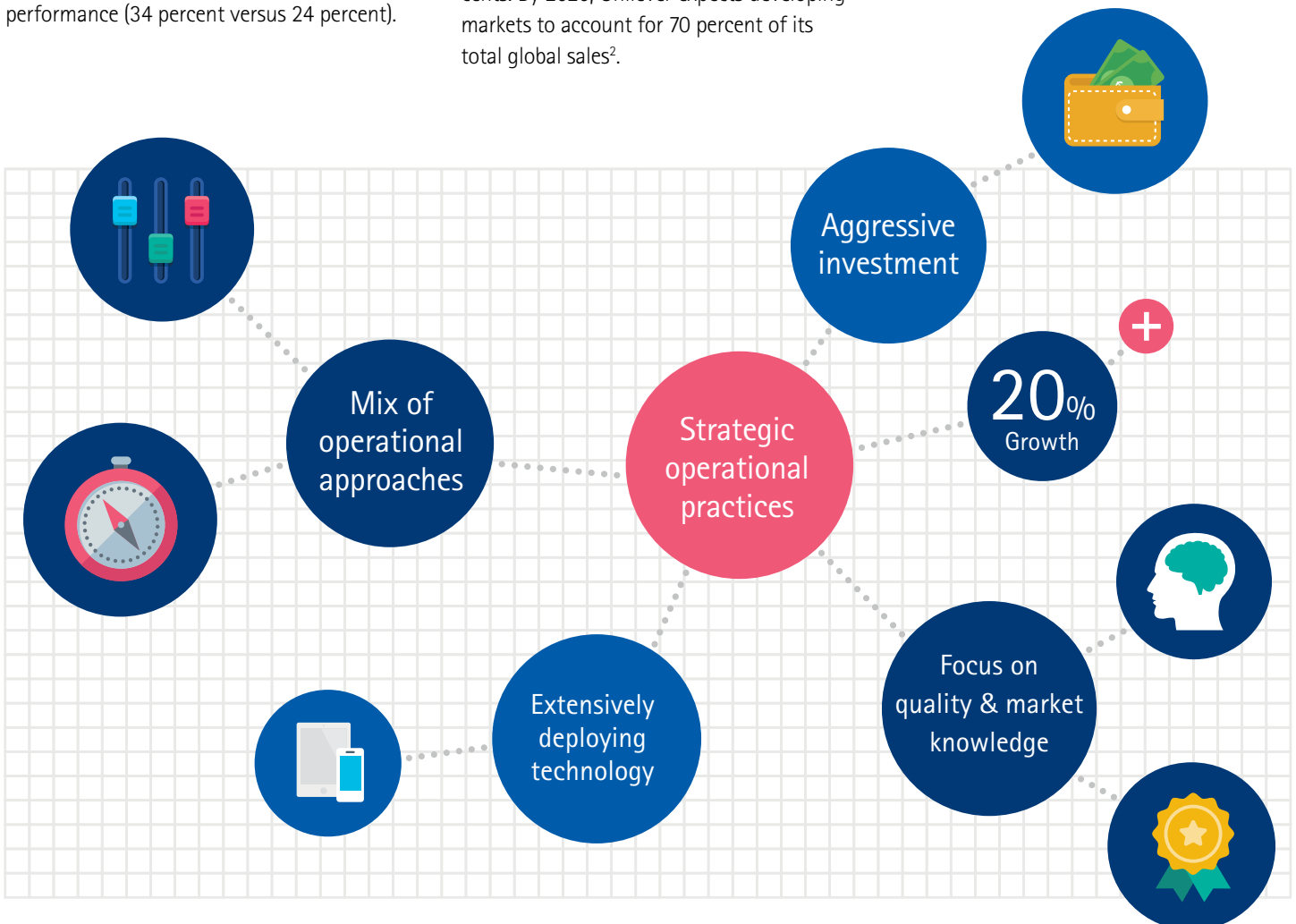
While supply chains among the group of leaders in our study tended to use the same measures of success as others, they were more than twice as likely (17 percent versus 7 percent) to consider differentiated quality as a key metric (Figure 5). Furthermore, leaders placed a greater emphasis than others on deeply understanding their market's culture and ways of doing business (39 percent versus 30 percent) as a factor that enabled their supply chain to exceed expectations (Figure 6). Conversely, supply chains that simply met expectations were more likely to say a lean cost structure that is competitive with local companies is key to their performance (34 percent versus 24 percent).

These findings suggest that focusing on operating costs, while important, is not enough to drive emerging-market success.

In Accenture's experience, achieving differentiation through quality and market knowledge is essential for two reasons:

- The average customer in an emerging market may have less disposable income than existing customers in developed markets and, therefore, likely will be more interested in lower-cost products or services (which, in turn, can mean an acceptable tradeoff on quality). Unilever, for instance, recognized emerging-market consumers' need for lower-cost items and, thus, introduced shampoo and detergent sachets. The products, driven by Unilever's market insights, have given the company an established, differentiated brand that will follow customers as they progress into the middle class. In Indonesia, one-third of Unilever's revenues have come from purchases of items costing less than 20 US cents. By 2020, Unilever expects developing markets to account for 70 percent of its total global sales<sup>2</sup>.

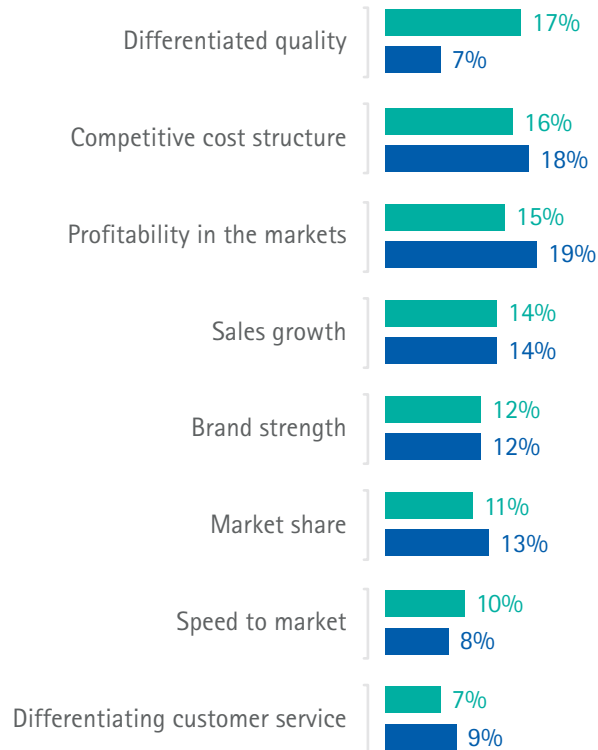
- There is often a less-pronounced need for product features in developing markets because they are later adopters. Eliminating unnecessary features can enable companies to provide simpler products at an acceptable price<sup>3</sup>. The Tata Nano is a good example. The car was re-engineered as a no-frills car, reducing any extras that added cost to the vehicle. The Nano became the cheapest new car in the world, opening the car market to customers who had previously only been able to afford motorcycles.





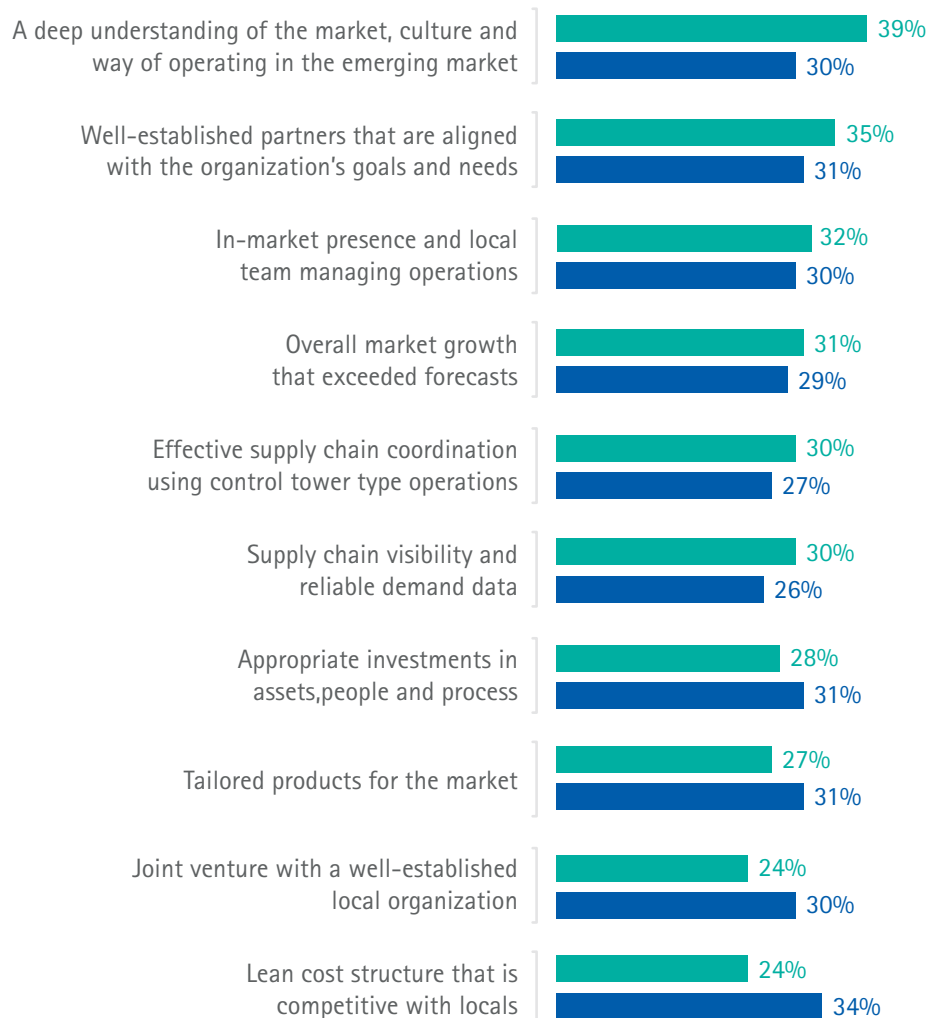
**Figure 5:** Leaders are more likely to include differentiated quality as a primary measure of success in emerging markets

■ Leaders ■ Others



**Figure 6:** Leaders place a greater emphasis than others on understanding their market's culture and way of doing business

■ Leaders ■ Others



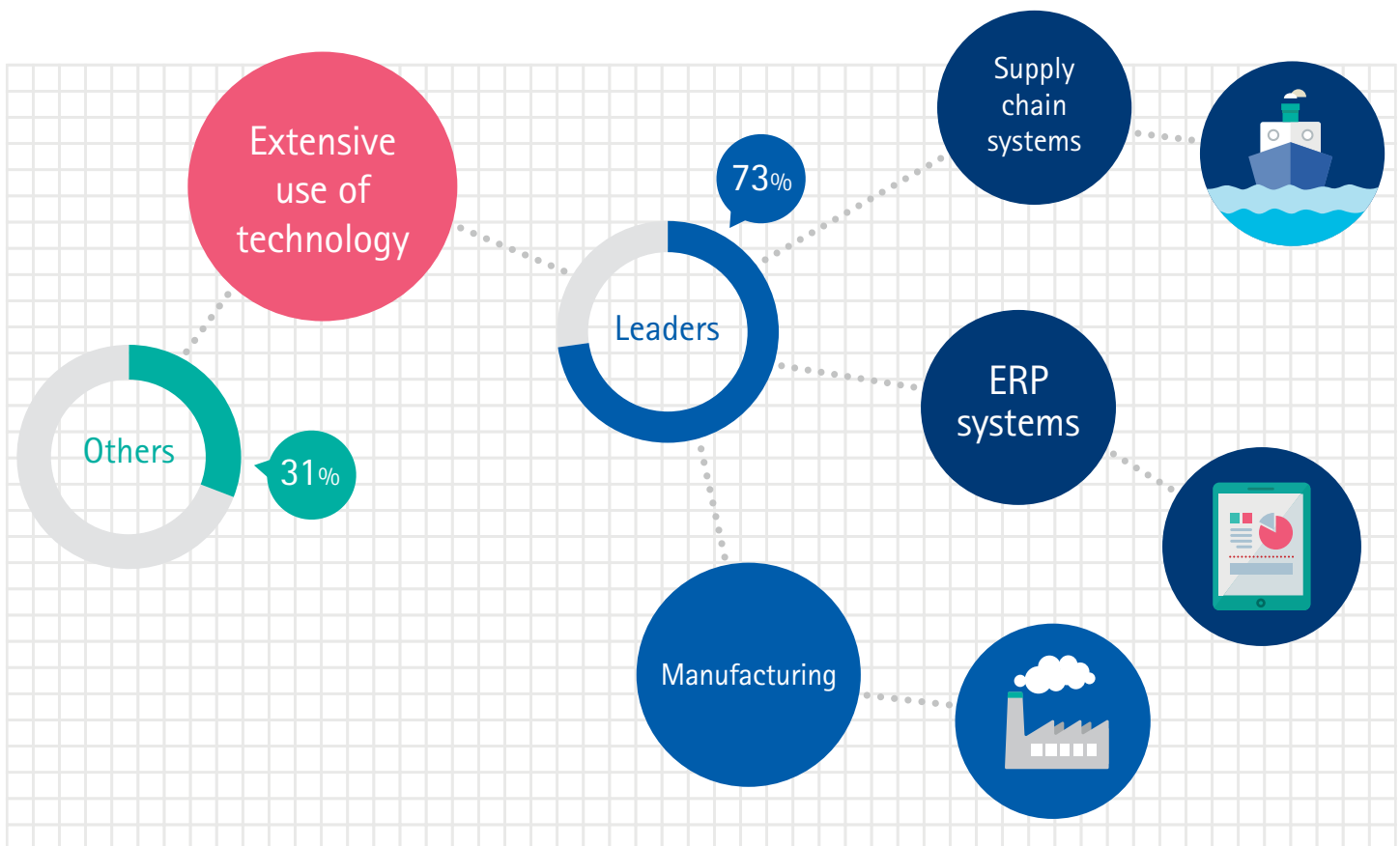
In many cases, differentiation is the direct result of the intersection of deep local market knowledge and extensive experience in serving other markets. This confluence enables a company entering a market to offer unique goods and services that local suppliers with limited exposure outside of their home market don't or can't provide.

For instance, when making its move into India, Colgate Palmolive Company realized that Indian villagers had been using their fingers and water to clean their teeth with charcoal, brick dust and similarly abrasive substances. This insight spurred the company to replace its ubiquitous toothpaste with a more basic "toothpowder" that was immediately recognizable to target customers<sup>4</sup>.

Yet controlling costs is still crucial. Providing a cost advantage by building sufficient scale or efficiency can enable players in emerging markets to deliver goods at a lower cost and ride out periods of intense price competition. That's particularly critical for industries that have high fixed costs and low levels of product differentiation, and which are most prone to price competition as companies fight to build sufficient scale rapidly. Even players in highly differentiated categories will regularly see price wars as competitors seek to establish their presence and build or retain market share<sup>5</sup>.

Costs also are especially important given that growth in China and other emerging markets will come primarily from consumers who are not currently consumers and who reside in geographies that are often not served or well covered today. A rapidly rising cost to serve and diminishing return on coverage means companies will need to find new ways to efficiently serve those markets.

One company, for instance, is introducing a lower cost-to-serve model to expand its geographical reach by relying more heavily on distributors and third parties to cover some of the activities the company would otherwise support in house (at a significantly higher cost). Similarly, another company looking to expand in China has found that the supply chain model it developed to serve the Tier 1 and coastal cities in the country is unsuited to support growth in the western and southern part of the country, where a much more granular approach to market segments is needed.



## Leaders use technology extensively to increase efficiency, improve flexibility, and enhance decision making.

Technology is vital to helping companies manage the high degree of complexity and volatility inherent in global operations, enabling them to make fact-based decisions and respond quickly and accurately to changes in the marketplace.

Yet surprisingly, use of technology is not as widespread as one might expect among all survey participants. While 48 percent of companies overall said their supply chain uses technology extensively in support of the company's emerging market pursuits, 45 percent said technology use is only moderate. The latter companies reported automating some essential activities, but supporting those with manual processing. Nearly one in 10 companies said their supply chain's use of technology is limited, with most of their work done manually.

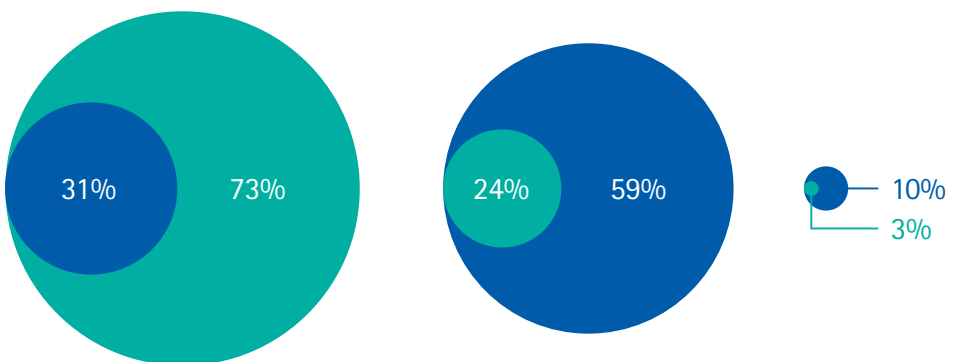
This is one area in which leaders differed most from other companies. As shown in Figure 7, leaders were more than twice as likely as others (73 percent versus 31 percent) to extensively use technology to help support their company's emerging-market efforts. In fact, nearly three-quarters of leaders said they have made heavy investments in such automation tools as manufacturing systems, ERP, and supply chain systems.

One way technology can help companies in their emerging-market pursuits is to allow them to access and provide goods and services to new customers in new ways. In West Africa, for example, a program called Cocoa Link uses mobile technology to deliver information to local farmers about crop prices and other best-in-class farming practices. Funded by the chocolate maker The Hershey Company and locally run, Cocoa Link includes assistance from Ghanaian instructors, who help train farmers in the use of mobile technology<sup>6</sup>.

But one size does not necessarily fit all when it comes to utilizing technology solutions in the developing world. Often, simpler fit-for-purpose approaches tailored to local needs are the most successful way to engage with people in emerging markets<sup>7</sup>. One highly successful example is the M-PESA™ system of mobile phone banking in East Africa, which has gained 19 million enthusiastic users in Kenya and Tanzania since its launch in 2007. The service provides anybody with a mobile phone the ability to do their banking without needing to find an ATM, a bank or the internet. The service allows for payment to friends, shops, services, bills and even employees. By understanding the needs and technological constraints of local customers, M-PESA was able to craft the right solution for the market<sup>8</sup>.

As they continue to expand in emerging markets, companies have an increasingly greater opportunity to understand their customers at ever-growing levels of detail. Such detail improves a company's ability to tailor products and services to key customer segments. However, due to the multiple sources of data, collecting and effectively analyzing customer data can be quite complex. Being able to distill and make sense of such data requires tools that go beyond sophisticated software. It requires robust information management as well as the development of appropriate talent with data analytics knowledge and cohesive decision-making<sup>9</sup>.

**Figure 7: Leaders are more than twice as likely as others to make extensive use of technology**



**Extensively** – heavy investment in automation especially in manufacturing, ERP systems, SC systems, etc.

**Some** – some essential automation supported with manual processing

**Limited** – mostly manual

## Leaders continue to invest aggressively in supply chain operations to keep pace with changing market dynamics.

To help them achieve the growth goals they've set for their target emerging markets in the next three years, leaders in our survey are planning investments in a variety of areas across their operations.

They are especially more likely than others to plan to invest in improving and expanding their physical infrastructure, driving operational excellence, adopting customer analytics to understand customers better, and cultivating more partner relationships to extend their emerging-market reach and expertise (Figure 8).

Those investments will be significant: Forty-six percent of leaders, versus 36 percent of others, plan to invest at least \$30 million in the next two years on the aforementioned initiatives. And leaders are nearly twice as likely as others to be planning to invest more than \$40 million (Figure 9).

There are several examples of how companies are investing in their supply chain operations to keep pace with changing market dynamics. At Lenovo, for instance, a hybrid supply chain lies at the heart of both the company's emerging-market capabilities and its ability to achieve a leading position in a depressed global PC market. The hybrid model uses advanced segmentation and analytics to help reduce costs and improve delivery performance. In addition, Lenovo has eight in-house plants and 24 outsourced sites in China, Europe and South America.

The company has been able to create flexible operations and execute with increasing speed by keeping part of its production in house. As a result, Lenovo can mitigate potential supply chain risk with relative ease while accessing new markets through deep analytical understanding.

Another company, Tata, developed alternate channels of distribution to help the company expand into rural markets. The objective was to funnel potential customers to the main dealership network, where they could

access sales experts, inventory on hand, and after-sales service. Tata recruited local sales people who were willing to generate leads on a commission basis. They also developed a network of corporate partners that had an established presence in rural areas and could identify and feed prospects to Tata's direct dealer network<sup>10</sup>. This accelerated growth into new markets, enabling Tata to access previously untouched customers.

Coca-Cola has built its success in emerging markets in part by developing strong relationships with individual franchisees, including providing managerial and technical assistance from its head office and employing local market brand ambassadors to build brand equity<sup>11</sup>. Such engagement of local agents has provided a springboard into new markets, providing a solid foundation for future expansion.

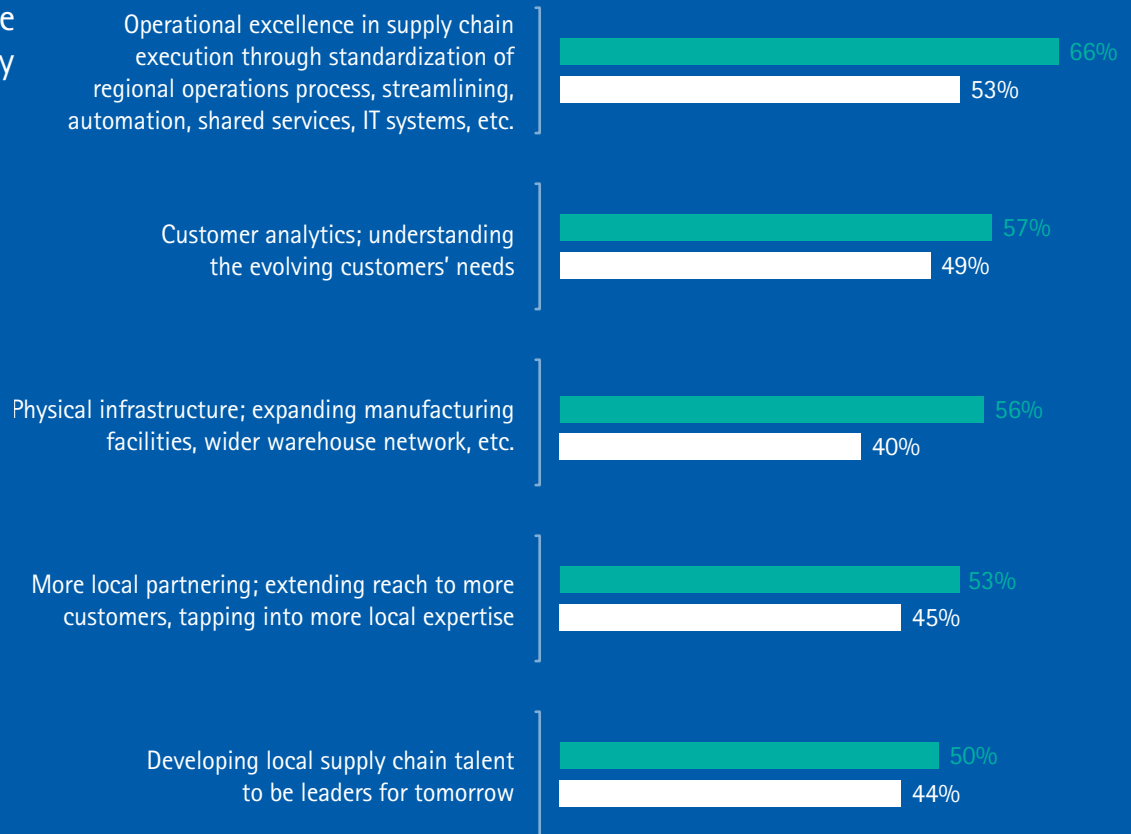
When considering where to invest their precious resources, companies should consider their supply chain capabilities and where gaps exist that prevent them from capitalizing on emerging-market opportunities. At a high level, a supply chain should include an effective integrated sales and operations planning process for key markets to ensure the company can achieve its customer service, time-to-market, inventory and cost objectives.

It should leverage a procurement, manufacturing, distribution and research and development network designed to deliver a quality product, in the scheduled time frame, meeting cost-of-goods sold and time-to-market goals. It should provide tight links with customers and suppliers to enable improved demand visibility, customer service, and reduced working capital and cost-of-goods sold. It should incorporate logistics partnerships to ensure efficient and time-effective, low-cost sourcing and market penetration. Finally, it should feature effective supplier recruitment, certification, and alignment programs to ensure quality and service objectives in addition to cost<sup>12</sup>.

When considering where to invest their precious resources, companies should consider their supply chain capabilities and where gaps exist that prevent them from capitalizing on emerging-market opportunities.

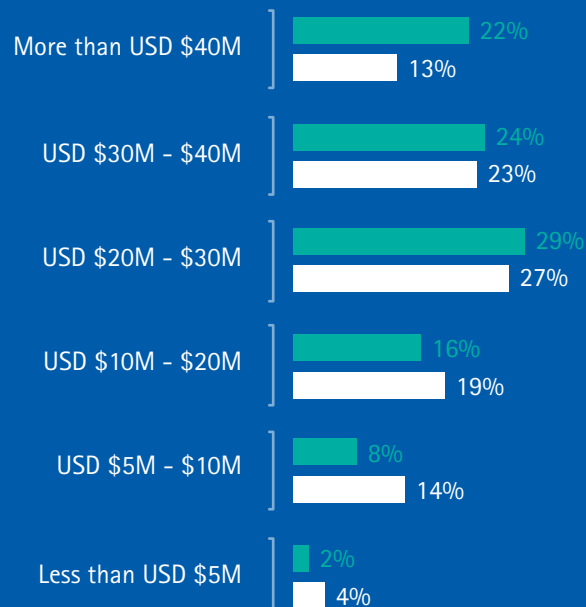
**Figure 8:** Leaders are more likely to be investing in key areas of the supply chain

■ Leaders ■ Others



**Figure 9:** Leaders will invest more aggressively in supply chain operations

■ Leaders ■ Others



# Conclusion

As any company that has considered expanding into emerging markets can attest, such regions offer at once significant opportunities for growth and major, often unforeseen, challenges. In most cases, a company's ability to capitalize on the former while minimizing the latter is highly dependent on the strength of its supply chain.

That's certainly true of the leaders in our survey, which have generated robust growth in their chosen emerging markets on the back of a high-performing supply chain. These organizations have created a supply chain that has exceeded their expectations by taking advantage of a variety of supply chain approaches, gaining deep insights into their target markets, extensively using technology, and investing aggressively in key areas of their operations. In the process, they have positioned themselves for competitive

advantage over not only their similarly expansion-minded peers, but also long-established local companies with substantial name recognition in target markets.

The supply chain's role in the success of the modern company is indisputable. As our research shows, nowhere is that more true than when a company's growth depends on how well it can navigate through the uncertainty and volatility of promising emerging markets.

# About the Research

The Accenture Global Operations Megatrends research study is designed to explore key trends in the operations function. The research focused on three areas: emerging-market growth, supply chain risk management, and big data analytics. These were named as the top priorities and areas of concern among supply chain leaders globally. The intent of the research is to understand the specifics of what companies are executing and planning in these areas and the effectiveness of those strategies and tactics.

The research involved a web-based survey of 1,014 senior executives primarily at large global companies headquartered in the respondents' locations. Fifty-six percent of respondents held C-level titles, including Chief Supply Chain Officer, Chief Procurement Officer, Chief Sourcing Officer, Chief Operations Officer and Chief Operating Officer (Figure 10). The remaining 44 percent were senior-level supply chain, procurement or operations executives.

Just under half (48 percent) of participating companies had revenues of greater than US\$5 billion, with 18 percent reporting more than \$10 billion in revenue (Figure 11). Companies represented a wide range of industries (Figure 12). The headquarters location of participating companies was evenly split across North America, Europe, and Asia Pacific.

# References

- 1 "Emerging Market Entry - Keys to Success," Accenture, <http://www.accenture.com/us-en/Pages/insight-emerging-market-entry-key-success.aspx>
- 2 "Fighting for the next billion shoppers," The Economist, <http://www.economist.com/node/21557815>
- 3 "Emerging-markets Product Development and Innovation - The New Competitive Reality," Accenture, <http://www.accenture.com/us-en/Pages/insight-product-development-innovation-emerging-markets.aspx>
- 4 "A Passage to India," Accenture, <http://www.accenture.com/us-en/outlook/Pages/outlook-journal-2009-january-contents.aspx>
- 5 "Emerging Market Entry - Keys to Success," Accenture, <http://www.accenture.com/us-en/Pages/insight-emerging-market-entry-key-success.aspx>
- 6 "Technology in Development - Engaging with People in Emerging-markets," Accenture, <http://www.accenture.com/us-en/Pages/insight-role-technology-addressing-development-challenges.aspx>
- 7 "Technology in Development - Engaging with People in Emerging-markets," Accenture, <http://www.accenture.com/us-en/Pages/insight-role-technology-addressing-development-challenges.aspx>
- 8 "The Economist explains - Why does Kenya lead the world in mobile money?" The Economist, <http://www.economist.com/blogs/economist-explains/2013/05/economist-explains-18>
- 9 "Analytics for High Performance in Asia Pacific: Could Managed Services be the Answer?" Accenture, <http://www.accenture.com/us-en/Pages/insight-analytics-asia-pacific-managed-services.aspx>
- 10 "A New Breed of Operations for Emerging Markets," Accenture, <http://www.accenture.com/us-en/Pages/insight-new-breed-operations-for-emerging-markets.aspx>
- 11 "Emerging Market Entry - Keys to Success," Accenture, <http://www.accenture.com/us-en/Pages/insight-emerging-market-entry-key-success.aspx>
- 12 "Supply Chain Strategy for the Asia Pacific Region," Accenture, [http://www.accenture.com/sitecollectiondocuments/pdf/5514\\_supplychainasiapacificregion\\_final.pdf](http://www.accenture.com/sitecollectiondocuments/pdf/5514_supplychainasiapacificregion_final.pdf)

**Figure 10: Participants' job title**

Job Title	Count	Percent
Managing Director, Senior Director or Director of Supply Chain, Procurement, Operations or Sourcing	273	26%
Chief Supply Chain Officer	202	20%
Executive Vice President, Senior Vice President or Vice President of Supply Chain, Procurement, Operations or Sourcing	169	17%
Chief Operating Officer	140	14%
Chief Procurement Officer	111	11%
Chief Operations Officer	103	10%
Chief Sourcing Officer	16	2%
<b>Total</b>	<b>1014</b>	<b>100%</b>

**Figure 11: Participating companies' annual revenue (USD)**

Annual Revenue (USD)	Count	Percent
More than \$10 billion	183	18%
\$5–\$10 billion	308	30%
\$1–\$5 billion	363	36%
\$500–\$999 million	160	16%
<b>Total</b>	<b>1014</b>	<b>100%</b>

**Figure 12: Participating companies' industry**

Industry	Count	Percent
Electronics & High Tech	130	13%
Consumer Goods & Services	129	13%
Industrial Equipment	126	12%
Banking	125	12%
Retail	123	12%
Communications	104	10%
Health Providers (Hospitals, Clinics, Government Health Facilities)	82	8%
Energy	76	7%
Chemicals	65	6%
Utilities	51	5%
Other	3	0%
<b>Total</b>	<b>1014</b>	<b>100%</b>

## About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with more than 293,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US\$28.6 billion for the fiscal year ended Aug. 31, 2013. Its home page is [www.accenture.com](http://www.accenture.com).

## For more information

Additional information and materials from this research initiative are available at [www.accenture.com/megatrends](http://www.accenture.com/megatrends). To learn more about how Accenture can help you implement an Operations Strategy that responds to market volatility and improves business outcomes go to [www.accenture.com/strategy](http://www.accenture.com/strategy), or contact:

### Mark Pearson

Munich, Germany

[mark.h.pearson@accenture.com](mailto:mark.h.pearson@accenture.com)

### Olaf Schatteman

Sydney, Australia

[olaf.schatteman@accenture.com](mailto:olaf.schatteman@accenture.com)

### Pierre Kaltenbach

Paris, France

[pierre.f.kaltenbach@accenture.com](mailto:pierre.f.kaltenbach@accenture.com)

### Gary Hanifan

Seattle, Washington, USA

[gary.l.hanifan@accenture.com](mailto:gary.l.hanifan@accenture.com)

This document is produced by consultants at Accenture as general guidance. It is not intended to provide specific advice on your circumstances. If you require advice or further details on any matters referred to, please contact your Accenture representative.

This report makes descriptive reference to trademarks that may be owned by others. The use of such trademarks herein is not an assertion of ownership of such trademarks by Accenture and is not intended to represent or imply the existence of an association between Accenture and the lawful owners of such trademarks.

Copyright © 2014 Accenture  
All rights reserved.

Accenture, its logo, and  
High Performance Delivered  
are trademarks of Accenture.

