

# Heading for New Shores

## *A Pragmatic Approach for the Strategic Assessment of Foreign Markets*



China has become the world’s second-largest economy – and is still on the rise, with double-digit growth rates. India’s middle class is expected to reach 250 million people by 2015. The Brazilian unemployment rate is at historical lows, its qualified workforce rare and its thirst for consumption big. The figures are well known, but still impressive. And they are an indicator of a growing, not yet fully saturated demand for products of high quality and mature market standards. Many companies have recognized the growing demand in growth markets, but not all of them have taken the initiative to assess and enter these markets. Many are facing a simple obstacle: lack of market know-how due to different cultures, heterogeneous market structures and complex competitive landscapes. Arthur D. Little has developed a proven pragmatic approach and strategic toolbox to create transparency in regions where little information is publicly available.

### Growth acceleration – but how?

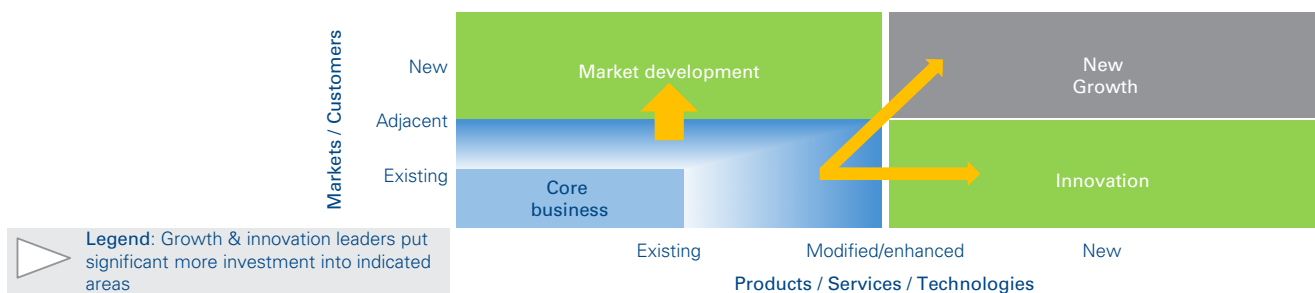
Growth can be achieved along different dimensions: within the core business, through exploitation of new market & customer segments and product and technology innovation, as well as in wholly new business segments (see figure 1).

Until now, most companies with origins in mature markets have generated the bulk of their revenues in developed countries. Significant growth potential can be found in the development of new geographical markets, specifically high-growth markets such as BRIC<sup>1</sup> and MENA<sup>2</sup>. Despite remarkable growth rates in

recent years, these countries still have huge backlogs regarding per-head expenses and per-head investments. The current growth is partly due to increasing demand for products with quality standards equal or almost equal to those in mature markets. This pattern can be observed in different countries and across various product groups, such as automotive, consumer goods, building material and many more. In some sectors – e.g. automotive – the massive potential is already being exploited by international corporates. German cars, for instance, have been sold in Asia, the Middle East and the Americas since the 1980s. Other industries – such as consumer goods – are far behind and now recognize that attractive customer segments for medium- to high-quality products are surging in high-growth markets such

1 BRIC - Brazil, Russia, India, China  
 2 MENA - Middle East, North Africa

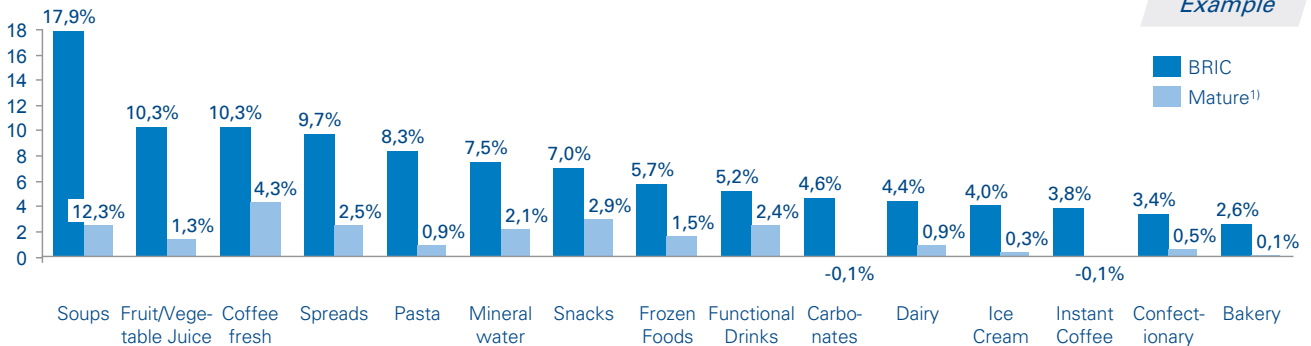
Figure 1: Priorities of growth and innovation leaders



Source: Arthur D. Little Growth and Innovation Survey; Study of over 400 companies

Figure 2: Growth rates in selected categories 2013 - 2016

Growth rates, [Volume in kg/liters, year-on-year growth rate in %]



Source: Euromonitor, Arthur D. Little research

1) Mature markets includes Japan, Canada, USA, Austria, France, Germany, Italy, Netherlands, Sweden, UK

as Brazil, Saudi Arabia and China (see figure 2). These markets embody a latent growth potential for a variety of companies seeking expansion possibilities.

### Different geographical markets – similar problems

One of the major obstacles in the way of companies entering foreign markets, especially growth markets, is lack of appropriate and reliable market intelligence. The decision to enter new markets requires a comprehensive assessment of market structures, customer demands, local competitors and potential business partners along the value chain. Three main questions have to be answered:

- Is the market attractive to my business/product?
- What are appropriate market-entry options for my business?
- What does a potential roadmap for an effective and efficient implementation look like?

### Valuable insights through a consistent approach

Arthur D. Little has developed a pragmatic, time-efficient and consistent three-step approach (see figure 3) for structured strategic assessment of markets for which little data is publicly available – a characteristic many growth markets have in common. The approach centers around two strategically essential dimensions from a company-specific point of view: Market attractiveness and strategic fit to the overall corporate and business strategy and the company's corporate culture.

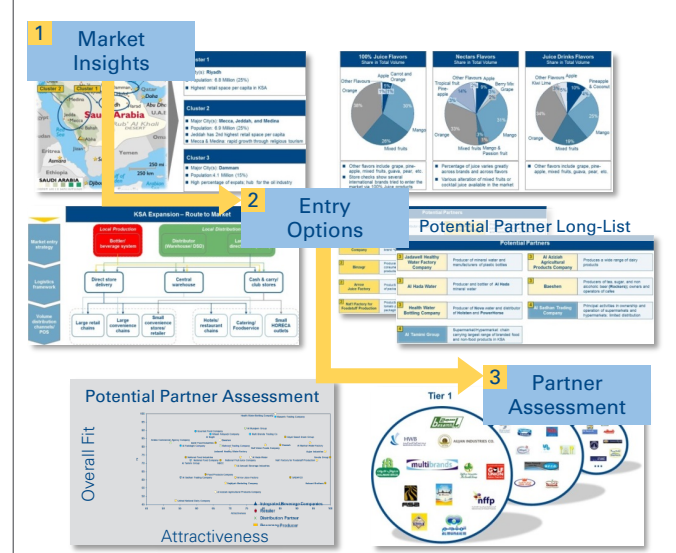
The key element allowing decisive insights into foreign growth markets is the use and integration of local teams to collect data from industry experts and customers. A physical presence in the target market allows for in-depth discussions, higher engagement of interviewees and, hence, much more information depth and quality.

### Step 1: Gather market insights

At first, our strategic market assessment approach is aimed at identifying the rationales of if and why market entry is viable. The respective markets will be assessed according to market dynamics such as market size, growth and trends, the competitive landscape and profitability levels, customer requirements, and regulatory conditions. The goal is an overall assessment of the current attractiveness and future developments of the respective markets and targeted segments.

Growth markets often require triangulation between various data sources to provide a valid decision-making basis. Therefore, the market assessment is often based on macroeconomic data, expert opinions and first-hand consumer information. Based on segmentation, for example, relevant consumers can be identified and interviewed, thereby revealing information on current demand for the product, desired requirements, and differentiating factors in the current product landscape.

Figure 3: Structured three-step strategic assessment



### Gathering market insight to develop a regional commercial vehicle strategy for a leading German OEM in six target markets in the Middle East (UAE, KSA, Iraq, Qatar, Kuwait and Oman)

**Challenge:** The six target markets lacked reliable data sources (e.g. market reports, official registration data) for a comprehensive and valid market assessment.

**Solution:** Arthur D. Little developed a market model building on economic drivers (GDP), industry- and segment-specific trends and product mix. Furthermore, selected proxy data (e.g. insurance data in lieu of registration data) and expert interviews (customers, manufacturers, government, regulatory) were used to triangulate the required information and forecast the market. To enhance the overall quality of the model's upselling potential, market figures were calibrated with historical market shares.

Furthermore, in this step the current brand perception and product value proposition will be clarified and mapped with consumer requirements in order to identify gaps, misconceptions and other potential pitfalls. At the end, a clear picture of the attractiveness, market structure and dynamics, and buyer and competitor landscape is developed – as well as its capabilities and resources to serve these markets and their requirements.

### Step 2: Develop market-entry options

After the market attractiveness assessment, a review of the current distribution and marketing channels indicates if and how market entry can be conducted successfully. An analysis of a competitor's value chains and distribution structures brings forth relevant insights. Combining these with expert opinions on possible other channels, as well as good- and best-practice examples of market entries, several scenarios of entry routes are developed. The market-entry options for a company can vary from an organic entry to a strategic alliance, a joint venture or acquisitions. Arthur D. Little possesses a large international network that helps identify the most promising market-entry options and the "ability to win" according to brand, product, service, distribution/logistics and channels.

Strategic alliances have been proved as an effective and often-selected instrument in our strategic market assessment assignments. In order to find the right strategic partner, a long list of potential partners is created for the developed market-entry scenario, including partners for distribution, marketing, production or other parts of the value chain.

### Developing market-entry options in China for a leading European construction material manufacturer

**Challenge:** Development of market-entry options in a region where no reliable data sources (e.g. market reports, published industry data) were available for the specific market and products.

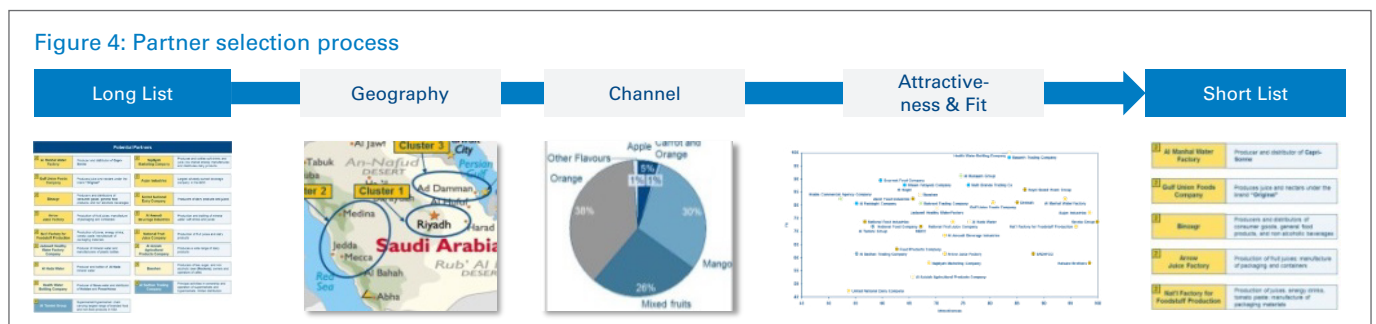
**Solution:** Arthur D. Little defined a go-to-market framework along all strategic dimensions (e.g. product, service offering, positioning). Using pragmatic identification of strategic options for each dimension of the framework – e.g. premium/upper, middle/lower, middle/commodity for product and home owners/developers/distributors/installers for target channels – Arthur D. Little was able to build viable and impactful go-to-market options through an in-depth-analysis of the ability to win. Evaluation of cost and benefits of different strategic options led to the preferred pathway for the client.

### Step 3: Identify potential partners

After the market attractiveness is assessed and potential entry options are developed, partnering options are evaluated. The long list of potential partners and options is screened and ranked, based on a range of selected criteria according to the market-entry scenarios. The most promising partners are evaluated in detail and finally contacted for an initial meeting and discussion of the specific entry scenarios (see figure 4).

Again, local insights from experts serve as the most important part in this step. As only expert and customer opinions can provide information regarding subjective perception and cultural fit of potential partners, publicly available information is only partially suitable to gain an in-depth view.

Figure 4: Partner selection process



### Identifying potential partners for a market-entry strategy to Brazil for a leading European beverage manufacturer

**Challenge:** Identification of potential expansion partners in Brazil, where reliable data sources for the beverage market have been rare (e.g. market reports, consumer demand and pricing data).

**Solution:** In the first step, Arthur D. Little developed partner archetypes, i.e. integrated beverage companies, beverage producers, distribution partners and retailers/commercial partners. Afterwards, Arthur D. Little evaluated the partners according to attractiveness/strategic fit to derive a comprehensive ranking, and then performed an in-depth profiling of short-list partners. Furthermore, Arthur D. Little formulated value propositions to partner archetypes (e.g. a technology proposition to beverage producers/bottlers – in this case, special cold-aseptic bottling). Short-list partners were contacted and the discussions were moderated during the partnering process.

### Assessing markets with local insights time efficiently

The success of market entry is, to a great extent, built before the actual process starts. Our experience shows that it is not sufficient to analyze macroeconomic factors such as market size and development or segmentations; companies must really understand the difference of new customers, competitors and partners in the targeted region. Therefore, it is crucial to deep-dive when it comes to information gathering, assessment of strategic fit and selection of local partners. A strong information basis is the foundation for the following assessment steps, and requires local knowledge. Hence, suitable insiders and customers need to be identified and contacted, and the right questions have to be asked to make their knowledge usable. However, with the “right” tools and methodologies, a valid information basis can be built within a short period of time.

### Possessing the “right” tools for market assessments

During recent years, Arthur D. Little has supported numerous clients in their attempts to assess foreign markets and develop appropriate market-entry strategies in the consumer goods & retail, food & beverages, automotive and construction industries in countries such as Brazil, China, Saudi-Arabia and other MENA countries. Arthur D. Little has successfully brought light into unknown markets in a resource- and time-efficient manner, building the foundation for valid decision-making. The success of our projects has always been based on local market insights, our pragmatic market models and the multidimensional evaluation of strategic partners. Our mission is always clear: to create transparency about the new “shores”

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### Arthur D. Little

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