# The New Emerging Market Multinationals

## APPENDIX TO Chapter 5 on Building Awareness:

## Leveraging Distribution to Build the Brand[1]

**Written with the assistance of Professor Michael Levy**





### The Importance of Distribution

The most important need that our sample of firms had to address, to be able to build their brand, was distribution. Most obviously and critically, distribution enables the brand owner to reach its desired customers, allowing it to "go-to-market." HTC's CMO John Wang noted that gaining distribution for their products, which enabled the consumer to access and experience their products, was one of the two key pillars of their success—the other factor being product innovation. Indeed, the inability to achieve adequate coverage stymies the potential of even top quality leading edge products to become successful brands. Consider for instance, BBK, a Chinese maker of consumer electronics, which markets a high-end and highly-rated[2] Blu-ray player, "Oppo," in the US. Notwithstanding its objectively superior offering, Oppo is limited in its ability to reach its customers broadly as it remains limited to its online presence, because it has not been able to get the desired bricks-and-mortar distribution. The result is that Oppo does not have the resources to build a brand that would enable it to charge higher prices commensurate with the quality of its products. Using the technology that Oppo owns, licensees who have the brand distribution, e.g., Denon, are able to command prices that are three to four times higher. Thus, obtaining adequate distribution is critical to success.

In trying to obtain and manage desired levels of distribution coverage in non-acquisition (“in-house”) ways (see chapter 5), three questions arise. First, which distribution channels should one target – how do you choose the most appropriate mix of wholesalers/distributors and retailers for a challenger, EMNC brand? Brand-building strategies require tight control of brand positioning tactics and marketing mix levels, , favoring distribution options that give the EMNC more control.

Second, once targeted, how do you incentivize them enough to agree to carry your small, unknown brand? Third, once you have struck distribution agreements with them, how does one manage the long-term distributor relationship?



**Selecting the Right Distribution Partners: Criteria to Employ**

Given the importance of distribution in the success of the brand, it is crucial for firms to develop a clear strategy and criteria for selecting distribution intermediaries. The usual options include (a) selling directly to retailers with your own sales force (probably not feasible unless you are selling in very large amounts); (b) selling directly to retailers using a ‘manufacturer’s representative’ system; (c) selling to wholesalers (which is a good way to reach smaller retailers); (d) a combination of these methods. Our interviews suggest several criteria that are commonly and broadly considered by our sample of firms in choosing suitable distribution intermediaries. These are their size, coverage, and resources; their market knowledge; their commitment to your brand(s); the size of their marketing budget; image fit; after-sales support capability; and learning objectives. We next discuss each of these criteria.

*Size, Coverage, Resources.* It is obviously necessary to try to seek an adequate level of market coverage for your target consumer segments in your selected geographical markets. – in terms of the numbers of outlets served; the frequency of sales-push support to downstream channels; the quality and quantity of in-store sales efforts; financial (working capital for inventory and downstream credit) and logistics (warehousing) resources; and the sophistication of internal IT and other processes. Good distribution partners create the physical presence for the brand and an opportunity for prospective consumers to experience the product -- particularly important for small challenger and EMNC brands that have smaller budgets to build their brands using traditional mass-media based approaches. Indeed mass media generally played a much less of a role than is normally the case, for many of the firms we talked to (Chigo, Midea, Haier, LG Electronics, Vitra, Mahindra Tractors, Tata Motors, Bajaj Auto). For these firms, distribution was the most important element in the marketing mix.



While getting A-level trade partners is very important for EMNC brand builders, A-level distribution partners are less likely to take on EMNC-type challenger brands, partly because of their existing contractual relationships with market leader incumbents (and pressure from those leader brands), and partly because EMNC brands are less well-known and inherently more risky. As Edmond Neo of Asia Pacific Breweries notes, there are “only a certain amount of good distribution partners, and then there’s the rest.” Thus, as late entrants, to get good distribution, emerging market brand builders are typically running after wholesalers and retailers whose shelves are already full. Echoing this problem, Apollo Tyres' Head of Corporate Marketing, Avik Chattopadhyay, notes "distribution is one of the main challenges and it is going to be the biggest because we are the 51st brand to come in. The distributor's shelf is already full". Thus, the top wholesalers/retailers in any market need to remove something from their shelves to provide space for the new entrant. They will only be willing to do so if the manufacturer can credibly and compellingly convince them that the new offer will increase their profitability. Further, given that the gains by the new entrant are likely to be losses for some incumbent, the effort to gain distribution is made even more challenging by the fact that the incumbents on the retailer's shelves are likely to retaliate aggressively. Thus, Titan CEO, Bhatt, discussing Titan's experience in Europe, noted that "retailers faced a lot of pressure from the Swatch group to stop carrying Titan, pressure that they [retailers] simply hadn't anticipated."



Fortunately, while the leading national retailers may be "already–taken," there is typically an opportunity to get shelf space with ambitious smaller wholesalers/retailers. Thus, for example, according to Joon Jun, President of Brand Marketing, North America for LG Electronics, when LG Electronics introduced the LG brand in the US in 2002 in the large appliance space, it initially targeted the smaller, more "hungry," regional distributors, who were overlooked by the established players and sensed an opportunity to grow by partnering with LG Electronics. Thus, LG found initial distribution with regional players in the US like hhgregg, Fry's, and PC Richards. Mahindra Tractor's CEO Nagwekar made the same point, saying "it would have meant a lot of effort to get the big dealers to sign up for us, we wouldn't have got large dealers and those already well established in the business, handling well known brands, to come into our fold. So we had to go to the smaller companies looking for opportunities, where the dealer and you are not very big and want to grow together".

An opportunity for distribution with a large wholesaler or chain retailer early-on is also possible when their strategic priorities change. LG Electronics benefited from such a strategic reprioritization. In 2003, Home Depot realized that its margins in appliances and other 'white goods' were higher than in many of the other categories. Thus, it decided to expand its white goods offerings and add a second strategic partner in addition to GE, with whom it already had a strategic partnership. LG was able to avail of the opportunity created by this strategic shift and partner with Home Depot, an opportunity that was supported by the incumbent GE, since LG Electronics already had a contract manufacturing relationship with GE in the appliance space. Clearly, such an opportunity depends on serendipity and cannot be factored in to the strategic planning of the firm.

*Market Knowledge.* Distribution partners have local knowledge that is of great value to the new entrant and, thus, such knowledge too needs to be a criterion for selection. Firms as diverse as LG Electronics of Korea, Dabur of India, and Ulker of Turkey noted such market knowledge as a benefit provided by local distribution partners. Indeed, in some industries and markets, for instance in the white goods business in the United States, national 'big box' retailers like Sears, Best Buy, Lowes, and Home Depot form strategic partnerships with brand manufacturers such that they support the manufacturers with market knowledge that their direct contact with customers enables them to acquire, while the manufacturers provide them with limited term exclusivity on innovative new products and specific customized models to help round out the retailer's portfolio of product offerings as well as differentiate the retailer from its competitors. Some firms – such as Midea in Brazil -- have pushed this distribution partner perspective to go for a full blown JV with their distribution partner which leverages the key skills of both partners.

Access to distribution partners and the ability to leverage their knowledge is not only important in the B2C space but also in the B2B space. Thus, TEMSA chose the dealer route in its Western European markets even though the major competitors in Europe, MAN, Volvo, and Mercedes, used a direct sales force. According to TEMSA CEO Buldurgan “in distribution we chose the dealer system. The world giants don’t work like this. They have direct sales. However, we would like to use the dealers’ knowledge and power. We are a new company and want to use the synergy there”.

Distribution partners not only provide market knowledge about customers but also provide support in terms of helping the new entrant deal with the regulatory intricacies that entry in to a new market inevitably entails. A retailer or wholesaler with the right connections and/or the knowledge of who the right people to speak to are, can help the entrant obtain a more speedy and sometimes more favorable status under the regulations in place. As Edmond Neo, Director at Asia Pacific Breweries commented “it is your connection with the local government,…not everyone pays equal amount of taxes. Some have more benefits than others…they [local distribution partners] know better who to talk to... “While such knowledge and connections are highly beneficial, it is difficult to assess to what extent they are likely to be useful, particularly in the more volatile political environments typical in emerging markets. Thus APB’s Edmond Neo “Sometimes the person you get connections to switches political parties, and there goes the hoped for connection".*Commitment. For a challenger firm depending on the support of the whoselaler/distributor, the commitment of these intermediaries to the company's brand(s) is critical for success. This is another reason why the firms in our sample went after hungry yet smaller regional retailers because their chances of getting support and commitment is higher. Evyap, the Turkish FMCG brand owner, stated how their distributor in Iraq is committed to their Duru and Arko brands and did support these brands even in parts of the country that were unsafe when the country was at war.*

*Marketing Budgets.* For challenger and EMNC brands, the financial resources and marketing budgets of large distributors such as Wal-Mart or Best Buy are very important and this is valuable even for a large EMNC firm like LG Electronics. Thus, in the US, a giant retailer like Best Buy can get superior media rates because of the size of its marketing budget which helps it to negotiate better volume discounts, which in turn helps take the brand-builder's funds further when joint ('co-op') marketing communications are undertaken. Moreover, the local distribution partner may benefit from special rates provided by media to local businesses and may also benefit from being able to choose more targeted and more effective media options due to its superior local knowledge. Finally, with co-op funds, there is a financial contribution from both the retailer and the brand owner, making the brand owner's funds go that much further. Highlighting some of these advantages, Chigo Group's General Manager of Overseas Marketing Division, Peter Liao, notes that "investing in marketing in partnership with distribution partners (via co-op arrangements) helps us to stretch our limited marketing budget and improve the effective deployment of our budget".

*Image Fit.* Another important criterion for choosing the right retailing partner, as indicated by our respondents, is the fit between the brand's value proposition and the image of the retailer. This is important as the retailer provides a tacit endorsement for the brand and the endorsement has to be consistent with the brand's promise to the end customer (see the "co-branding" discussion in Chapters 6 and 7). Thus, according to LG's Joon Jun, President of Brand Marketing for North America for LG Electronics, "LG had a clear strategy for developing its distribution network, with a specific sequence of target retailers in mind". According to this strategy, the first national partner that LG Electronics targeted, after obtaining distribution with the regional players, was Best Buy. Best Buy was patronized by a younger, more affluent and tech-savvy clientele and, although Best Buy carried consumer electronics and white goods, it was the national leader in audiovisual products. Thus, both Best Buy's customer base as well as its leadership in audiovisual product sales gave it the technologically sophisticated and more upscale image that LG Electronics also desired for its brand. A similar conscious effort to leverage the retailer brand's imagery, via "image rub-off," was mentioned to us by Haier USA's Michael Jemal.



The idea of fit also suggests that not only should the firm look for retailers that can enhance its brand image but also actively avoid distributors that can tarnish the brand image due to poor fit. Thus, according to LG Electronics' North American President and CEO Michael Ahn, LG Electronics put off entry in to discount retailers like WalMart, until quite recently, to avoid the risk of its desired premium image being tarnished. Only now, when the LG brand has been clearly established as a premium national brand in the minds of American consumers, has LG Electronics begun distribution through WalMart.

Today, LG believes that the LG brand is strong enough to stand on its own as a premium brand, even if it is distributed through a discount retailer.

This idea of channel fit comes up in a somewhat unusual context with the expansion of Brazilian cosmetics manufacturer, Natura, into the French market. Natura had traditionally distributed in its home market of Brazil and the broader Latin American market using a direct-to-consumer sales force. When entering France, Natura initially opted to go with a flagship store rather than a direct sales force channel as, in general, a direct sales force was perceived by French consumers as 'down-market,' and Natura was positioned as an 'up-market' brand. Given its limited resources, the flagship store strategy limited Natura to one location in Paris, which was not good from a business standpoint. One key insight however changed Natura's approach. They realized that the down market reputation of a direct sales force channel in France stemmed not so much from any intrinsic characteristic of this channel but from the type of people who typically served as sales representatives . Based on this, Natura began to recruit the kind of women who they wished to target with the Natura brand, to become their representatives, seeing them as brand ambassadors in addition to being members of their direct sales force, a move that has helped Natura cement its position in France.



*After-Sales Support.* The ability of the trade channel to provide superior after-sales service is very important for building brand credibility (especially for durable and expensive products) for the less-well-known brands that are typical of our EMNCs.. As Mahindra's Pravin Shah, Chief Executive of International Operations noted "the first thing that you need to build is credibility...we have put our own distribution in place so that our customers can get 24x7 local support, that gives a lot of comfort and credibility…for the end-customer because they are able to see the local company there and they have the satisfaction that there is somebody who is going to be there for them”. Nagwekar, Mahindra’s CEO for the tractor business, also emphasized the importance of having proper after-sales support, which in their case was not being adequately delivered by the local US distributor that they had initially appointed. Nagwekar noted that “The customer wants to be assured about the back-up service and parts. That was perhaps why we didn’t do well there in the beginning and decided to establish a presence there and incorporate a company”. Both divisions have learned their lesson well and today, when entering a new market, Mahindra spends as much as 12 to 18 months setting up its distribution system and building the capacity for adequate after-sales support, before launching the product. Doing the after-sales service in-house with its own distribution system also enables the EMNC to develop customer insight and understand customers better, leading to learning benefits.



*Learning Objectives.* Finally, for EMNCs, the knowledge they acquire from their distribution relationships in the more developed markets is not only invaluable in aiding further international expansion overseas but are also crucially valuable back home. In the biggest EMs, China and India, modern retailing (e.g. Wal Mart, Carrefour, Metro, Tesco) is still small, accounting for less than 10% of retail sales. However, this is on the cusp of changing. Thus, in the next few years, the investment in modern retail in India, which stood in 2005 at some $10bn, was set to explode by an order of magnitude with an expected incremental investment of US$7bn. Thus firms like Marico, Dabur, and others from India consciously seek to leverage their learning from managing modern retailers outside of India, to gain a competitive advantage domestically. Their choice of trade partners thus also is partially based on who they can learn from the most, for both the expansion markets and their own home markets.

**Getting In: What Wholesalers and Retailers Care About**

Given the difficulties and complexities of gaining distribution, to succeed, the manufacturer must understand the distribution partners' business model and, thus, what the wholesaler/retailer is looking for. Clearly, different wholesalers and retailers have multiple sales and profit objectives and metrics, which can vary with their size and level of sophistication. To strengthen their "selling-in,' it can help an EMNC to hire distribution and sales staff who have prior experience on their target customer's side. Chigo told us they had hired someone from Costco to help them get into North America, Mavi jeans hired a former Levi's senior manager for their new New York office, and Haier's European chief has extensive experience with several large European retailers, most recently with France's Darty.



Often, retailers begin by seeking to maximize their margin return per square foot or per dollar of capital invested, looking both at the margins per unit earned and the times the unit "turns" (velocity of sale; days in inventory). For sophisticated retail chains, these calculations of "direct product profitability" can be extensive, taking into account ALL linked costs associated with that item (including those of supply, inventory and credit), as well as ALL elements of margin/return (including supplier payments called "slotting allowances," support for advertising, display, promotions, sales force training, buying back unsold items, and the like). So, small EMNC and challenger suppliers need to be able to not only offer competitively-superior margins, fees, and advertising/promotion/display allowances, but also find ways to lower the inventory, supply, and financing costs borne by retailers, through more frequent replenishment of inventory, easier credit and return terms, etc. There is usually a second retailer goal of avoiding direct price competition with their competitors and of building store loyalty by selling exclusive merchandise, which offers small challenger EMNC brands another pathway to getting distribution access. We now discuss each of these, and others, below.



***Offering Higher Total Product Profits***

Our interviews revealed a broad spectrum of initiatives that were used to gain distribution by creating higher profits for the target distributors. These were higher margins; superior service levels; better floor-level sales training; and product assortment strategies, including broad product portfolios and/or more customized and exclusive products. . We discuss these tactics next.

*Higher Margins.* The most obvious way to convince the retailer of superior returns is by offering better financial terms. These could be in the form of higher margins, longer payment terms, better returns policy, and the like. Thus, for example, Chigo's Peter Liao, GM Overseas Marketing, noted that "we offer better margins and payment terms; we give more than competitors do to gain distribution". The superior margins and longer payment terms, both of which directly affect the retailer's profitability, have helped Chigo gain distribution in the highly competitive US market, for example.

*Superior Service Levels*. The danger of giving higher margins of course is that the already thin margins of the challenger EMNC manufacturer are further eroded and leave little resources to build the brand. To avoid the pitfalls of providing higher margins, companies like Haier, LG Electronics, Marico, and Apollo Tires take a different approach, by offering higher-value and cost-lowering service levels to their distribution partners. As Apollo Paint's CMO notes they try to differ in "the way we nurture the distributors,…not necessarily in the form of higher margin but in the form of the service levels we have and the knowledge, training, and development that we provide".



For instance, EMNCs can help wholesalers/retailers achieve superior inventory management and/or take quicker advantage of emerging opportunities by doing so. While large TMNCs may take weeks to respond to specific requests from retailers, the EMNC firms we talked to noted that they were much more flexible and responsive. As Fernando Dilmah, Founder and Chairman of Dilmah the Sri Lankan tea brander noted "when I go to visit retailers and they have a request, I can give an answer on the spot or at best within 48 hours. Our large multinational competitors however, could take weeks, due to their less flexible and more formalized internal processes". Speedier response was not just the hallmark of the small and nimble firms in our sample like Dilmah, but also true for much larger firms. Marico's Head of the International Business Group, Subramaniam, explained how they offer better inventory management or turns to their distributors and retailers, even in comparison to the large multinationals, making it attractive for them to carry Marico brands.

Subramaniam also notes "we have been able to integrate IT into distribution. We have what we call the Midas system, which offers end-to-end integration, right from the distributor in India to the plant. The whole chain is interlinked and we're tracking all KPIs in real time, and that information can be used to good advantage…For example, when our sales guy makes a call, he would have all the details on his hand held computer, like what are the SKUs the retailer has sold, how much is left in the shop, what is the order that we need to follow…The hand-held computer is internet enabled, which allows our sales people to communicate right away with our back-office, which then fulfils the orders more effectively and efficiently. We have tried to carry forward the knowledge of these processes to the newer geographies that we have entered". This innovation has caught the attention of other larger players and, as Subramaniam proudly noted, "In India we have had situations where the bigger companies come to us to look at how we've been using IT in distribution, as a benchmark".



Ülker, the Turkish food conglomerate also relies on a distributor network integrated via IT infrastructure to coordinate, control, and support its diversified product and brand portfolio, in its foreign markets. To have a faster retailer response, LG in India developed a vast network of local area offices, many times larger than their competitors. In the US, they invested in an integrated logistics set up consisting of warehouses, IT connectivity, and call centers, which enabled the firm to be more responsive to the distributor's and the end customer's needs.

*Better Floor-Level sales Training.* More and better training of floor-level salespeople by EMNCs not only helps the retailer but also helps the EMNC by keeping the retailer's floor sales people engaged and focused on recommending their brand in-store. To sustain such engagement with the brand, LG and Haier USA use sales contests and incentives, free products, and the like, all of which provide a direct incentive to learn about, be impressed with, and thus recommend their brands. Showcasing the firm's willingness and capability for providing more and superior training for the retailer's sales force can thus serve as an important win-win approach by which EMNC brand-builders can obtain and sustain access to distribution.

LG Electronics takes a two-pronged approach with this tactic. To the 'big box' buyer, LG offers superior training at the sales associate level, as well as more co-op advertising funds to get the product listed, than what is offered by other white goods competitors (See Table). These co-op budgets, combined with the supplier's own media spending, should hopefully boost consumer pull-through for the product, raising the "turn" or velocity of sales, which are the other side of the retailer's profit equation. As Titan CEO Bhatt, notes, while discussing the reasons for Titan's failure and ultimate exit from the European market in the 1990s, "retail access depends eventually on consumer pull-through….if you don't get consumer demand and sales, retailers will stop carrying…and they didn't (in Titan's European case) get adequate consumer pull, because of inadequate advertising".

*Product Assortment Strategy: Breadth of Product Portfolio.* Another cost-reducing and profit-increasing element in gaining distribution is the breadth of the product portfolio (the number and variety of SKUs) offered by the brand. A broad portfolio helps both the retailer and the manufacturer by reducing transaction and coordination costs. First, a single supplier can engage with the retailer across product categories and a larger volume of business, which reduces the complexity of the task facing the retailer, bringing down the retailer's as well as the manufacturer's costs, opening the possibility of either bigger margins or a more competitive price for both parties. Second, a manufacturer with a broad product line changes the mix of its offering consistent with any seasonality in sales to be able to maximize both its' and the store's revenues, again creating a win-win relationship. Such flexibility is not possible with a narrow product offering. Third, a broad product line is important as consumers often prefer to buy a range of products from one manufacturer rather than mix-and-match. Thus, a narrow product line can be bad for business, and companies such as Arçelik, Haier and LG Electronics which offer broad product lines have benefited. In contrast, as Mauricio Bellora, CEO for international operations at Natura noted, when Natura made the decision to enter France with only its Ekos line of cosmetics, it discovered that consumers tended to shy away from purchase due to the lack of a complete cosmetics portfolio. Naturally, such advantages of having a large product portfolio need to be weighed against those of being a narrower specialty, 'niche' player, discussed below.

*Product Assortment Strategy: Offering Customized, Exclusive, Innovative Products.* As mentioned, retailers also have as a second key objective the avoidance of price competition with other retailers, and the creation of store loyalty, by carrying merchandise which is exclusive and unique and hard to do price-comparisons on. Thus, a second approach that the firms we talked to took to get distribution was to offer more-customized products to the retailer. This could be in the form of retailer-specific manufacturer-branded models, or in terms of retailer own-brands. In either case, by having a store-specific unique offering, the retailer is able to maintain superior margins.

This is possibly the area where challenger EMNC brands are more competitive, and can leverage more successfully, than larger-scale incumbent TMNC brands. The challenger's typically lower labor cost-structures and lower-cost design and manufacturing capabilities (see chapter 3) allow them to offer retailers new and unique offerings, catering to new and small market segments, and more customized SKUs, that can be sold only through this retailer. One of the biggest costs when moving from one production batch to another on a manufacturing line is the labor cost of the changeover, and this is typically lower for our EMNC firms. Given their significantly lower labor costs, it is possible for firms from emerging markets to create greater customization for the retailers than can be done cost-effectively by their TMNC competitors.

Relatedly, a strategy that helps to gain distribution for the brand is to offer compelling and differentiated products that benefit the retailer both in terms of superior margins and faster inventory turns. Thus, Sears accepted to carry LG products only following LG's launch of its steam washing machine and three-door refrigerator in 2006, because these products were highly differentiated, enabling Sears to not only garner higher margins on these products, but also create store traffic which helped it sell both the targeted products as well as other products that consumers picked up during the shopping trip. Echoing this idea, Haier USA CEO, Michael Jemal, noted that Haier initially gained distribution by providing products such as small, inexpensive wine fridges, which created a mass-market opportunity for retailers and thus high volumes of sales, in a category which until then had been limited to a small affluent consumer group. Arcelik's successful entry in-to Britain using small table top fridges is another example of a compelling product that helped crack distribution access. Thus, having a product portfolio that makes a retailer confident of being able to protect its margins and sell through rapidly, is important.

In this connection, small challenger EMNC brands can potentially leverage their innovation pipeline and offer exclusive limited time access to targeted trade partners, to help gain distribution. Thus, distribution partners may be attracted to doing business with an EMNC not only because it has an interesting portfolio today but a well thought-out innovation pipeline to which they can have preferential access. Thus, for example LG Electronics's ability to get Best Buy as a strategic partner in the US was driven by the fact that LG brought with it not only an interesting portfolio of white goods but also because it had a well-articulated innovation pipeline, one which it was willing to offer preferential access to, for several months, to Best Buy. In LG's Michael Ahn's words "Once we got hhgregg, Fry's, and PC Richards and helped them succeed with our stream of innovative, high margin products, first Best Buy and then Home Depot came to us to sell our products."



In developing customized offerings of retailer brands, our data showed that the relatively later, smaller, and thus weaker EMNC entrants developed specific retailer brands for even the smaller regional retailers and supported them with marketing know-how to build their retailer owned brands. Chigo, for instance, noted that they helped their smaller regional distributors from Africa with choosing a brand-name for the store brand, designing the store-brand logos, and choosing the exterior design as well as specifications for the same. The ability of the supplier to do this goes up with their knowledge of the local consumer and competitive marketing environment, and changes in these. So building up such consumer insight capabilities becomes very crucial (see Chapter 3). EMNCs need to partner with retailers to gain such local market knowledge, through retailer sales data as well as other initiatives such as market research. Thus, Chigo, for example, noted that with its well established distributor in Italy it attends an annual trade fair, which helps it to better develop its offering to the retailer to enable the retailer to better differentiate itself.

***Building Credibility through Top Management Engagement***

From a distributors/retailers' perspective there are many uncertainties in deciding to carry EMNC products. As we already stated, retailers would like to see continuous innovative, high margin products, training of their salespeople, ongoing marketing support and the commitment of the EMNC to that market and distributor for the long term. This commitment will only resonate if it comes from the top level management of the EMNC firm. TEMSA, the Turkish bus and coach manufacturer shows this commitment by unlimited access to the CEO, Mehmet Bulgurgan. In Buldurgan's words "The Europeans say: 'We know your CEO and easily get access to your general director.' For 4-5 years we have made a lot of investments on 'trust' and achieved it. We have got a serious distribution network. We are going to gather them in Egypt, next year; we will take them around our new plant there. This is not sales. This is something else. This is showing our commitment to them."



The importance of top management commitment was echoed by LG's Michael Ahn in convincing hhgregg, Fry's, and PC Richards to carry LG products. Ahn himself visited the distributors several times and gave his personal promise for more training including special incentives, service, and greater marketing support than established MNCs. LG also flew the distributors and their families to South Korea to show their factories and facilities. These efforts not only showed LG's global scale but importantly convinced distributors of the seriousness with which LG regarded their business.

***Getting Trade Partners to come to you: Visibility Strategies***

That the brand and its visibility plays a crucial role in distribution is undeniable. Access to distribution is easier if the challenger manufacturer has a brand that is visible from outside, as it allays the retailer's profitability concern of sitting with stocks that might not sell. Put another way, the retailer's confidence in its ability to sell the inventory fast or achieve an adequate turnover is higher for visible brands. Thus, Modelo's Gomez, Director for Europe, Asia, and Latin America, noted that the advantage of the strong Corona brand is that they "receive lots of proposals from distributors around the world; as many as 10 a week". Similarly, Sanjeev Dani, Senior VP at Ranbaxy noted "if you have a past track record of launching successful brands in other markets... there are many large distribution partners who are interested in doing business with a company, which has never operated in the country. They actually line up to do business. For example, Yemen is a country which is a distant cousin in the Middle East and not so rich. We used to operate there, but we have not operated there for the last ten years. Now, recently, we saw that Yemen's prosperity is increasing, and we searched for a local distribution partner. There are several options available because they have all heard the name of Ranbaxy". The same is echoed by EVYAP's Arin, "because of our regional presence and size, distribution partners know our brands and they approach us."

Visibility depends partly on scale and, thus, firms that build up scale first are more likely to be successful in gaining distribution. The experience of Bajaj Auto is a case in point. Because of the large home market, Bajaj Auto was already the 6th largest global manufacturer of two wheelers when it seriously considered building its brand internationally. This gave it the advantage of being known to distribution partners even in far flung markets like Latin America, enabling it to find and attract the right distributors there, when Bajaj decided to enter the Latin American market.

While companies from large emerging markets like the BRIC markets can grow large domestically, this is not an option for firms from mid-size markets, e.g., Turkey. Firms from mid-size markets can acquire dominant local positions which confers visibility in neighboring markets, which can then be systematically exploited to scale-up, enabling them to gain broader international visibility, which helps when they make bigger leaps. Thus, Ulker's Fındıkoğlu noted that the firm "expanded in the region because we had the advantage of visibility to distributors" as they held dominant shares first in Turkey, their home market, and then in successive neighboring markets, that they expanded in to (e.g., Iraq and Egypt). This enabled them to be visible enough to gain good distribution in countries like Germany, where they later expanded successfully.

A second element that is reputation-related and important in gaining distribution is whether there is a manufacturer from the manufacturers' country of origin, preferably in a similar category, which has already succeeded in international markets. Thus, for instance, Apollo Tires' Head of Corporate Marketing, Avik Chattopadhyay, noted that it is a challenge for them to gain international distribution, as no Indian company has yet established itself as a regional or global brand in tires. LG Electronics on the other hand benefited from Samsung's earlier success in consumer electronics internationally. According to Michael Ahn, CEO and President of LG North America, "Best Buy was more open to dealing with us, another Korean firm, due to their good experience with Samsung's television sets". For multi-category players (a common feature of emerging market firms), this suggests that the choice of which category to lead the entry with can become crucial. LG, by leading with its home appliance portfolio reaped the benefit of a good image of Korean companies created by Samsung, which was the first-mover, and yet was able to side-step head on competition with Samsung by focusing on white goods, while Samsung focused on consumer electronics and mobile phones.



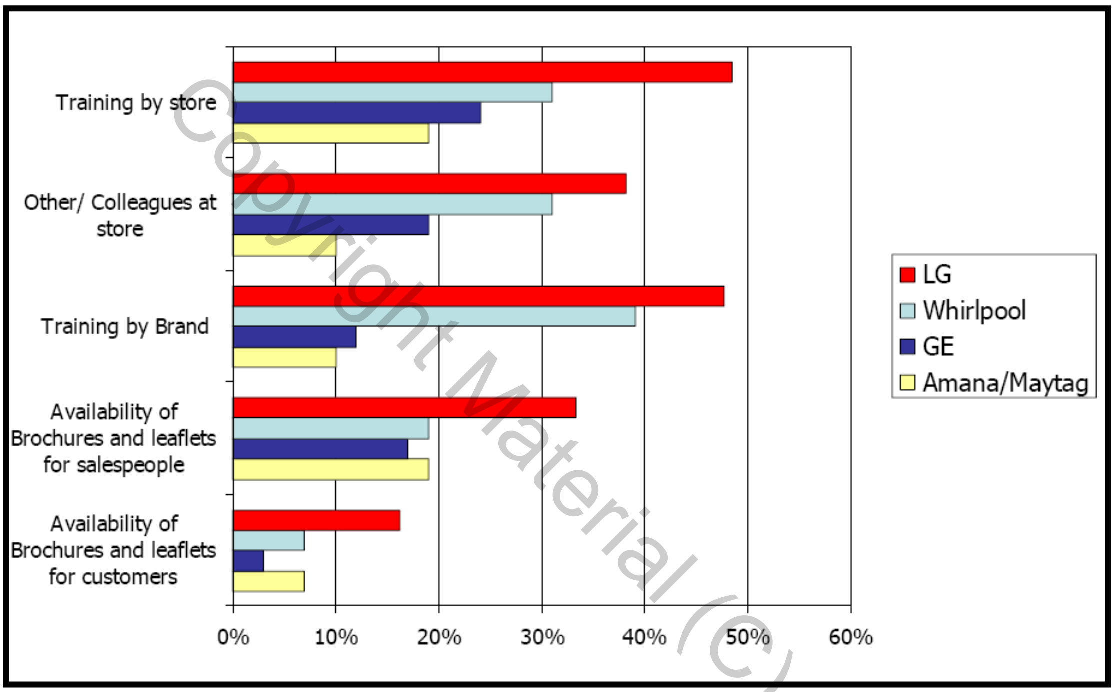
**Managing Long-Term Channel Relationships**

While channelizing their consumer marketing budgets through co-op, in-store activity, store associate training, and other efforts with their distributors makes good sense, manufacturers need to ensure that the budgets are spent in a manner that helps the manufacturer. Thus, firms like Chigo and Midea noted that they agreed on tangible deliverables with their distributors and then defrayed an agreed-upon part of the advertising expenditure or other costs incurred by the distribution partner, once the agreed-upon objectives were reached.

While such "control" issues are obviously important, it is possibly even more important to motivate and incentivize distribution partners to invest for a long-term relationship with the EMNC challenger brand. Arnold (2000)[3] has studied these needs at length and has made several important suggestions, including drawing-up contracts that make it clear that a long-term relationship is intended, and requiring and recognizing long-term investments by both sides. In addition, For example, EVYAP established a new firm in partnership with its distributor of 10 years in Iraq, to exclusively sell EVYAP products in that market. This partnership made the disributor see itself as indispensible, and investments in warehousing, and IT infrastucture followed. The firms we talked to also kept highlighting the importance of trust in their relationships with distribution partners. Ulker pays distribution partners even when there is economic turbulence in the foreign market (and they can’t sell); they then still get some money from Ulker to survive the tough times. In Metin Yurdagul’s words, “some of our distributors are third-generation. They know they won’t lose their money with Ulker.” This builds tremendous loyalty at the distribution partner level.

**Table**

Investments in In-Store Activity in White Goods in the US[4]



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[1] This chapter has benefited greatly from comments by Professor Michael Levy of Babson College, which we gratefully acknowledge.
[2] http://hometheaterreview.com/oppo-digital-bdp-83-universal-player-reviewed/, downloaded on June 10, 2011.
[3] David Arnold, "Seven Rules of International Distribution," harvard Business review, Nov-Dec 2000.131-137
[4] Amitava Chattopadhyay, Eunju Park, and Joseph Lajos (2007), "LG Electronics Ltd.: Making Waves in the North American Market for Washing Machines," INSEAD case study # 12/2009-5463, Exhibit 7, p. 23.