Turbocharging Consumer Products in Developing Asia

How to overcome the pitfalls that keep brands from growing.

By Paolo Misurale, Nikhil Ojha, Nader Elkhweet, and Mike Booker

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Paolo Misurale is a Bain & Company partner based in Singapore, Nikhil Ojha is a partner based in Mumbai and Nader Elkhweet is a partner based in Jakarta. Mike Booker, a partner based in Singapore, leads Bain's Consumer Products practice in Asia-Pacific.

With their huge and expanding consumer population and swiftly rising incomes, Asia's developing markets may just be the most promising place on Earth to sell fast-moving consumer goods (FMCG). But they also can be a quick place to fail: The rules of the game are changing at an ever-increasing pace, and many multinational and local brands are struggling to keep up. To compete in these markets, brands need to push themselves more than ever to swiftly and continuously adapt to the new realities.

Fundamental consumer shifts in developing Asia have accelerated in the past few years, making it tougher for brands to survive and win in a region that remains critical for multinationals (see the sidebar "Developing markets' rebound"). For example, as consumers' lives become more hectic, they are more likely to buy food and beverages that they can consume on the go. As a result, consumption occasions are becoming more fragmented across dayparts. Consumers in the region are also increasingly willing to pay for *convenience*, and they are more *digitally connected* than ever. Consider that China has 1.3 billion mobile phone subscriptions (key for digital adoption and e-commerce penetration) and that the six largest countries in Southeast Asia now boast a total of more than 200 million digital consumers—a 50% rise from just last year. According to a 2016 study by Bain & Company and Google, in three years, an estimated 130 million consumers in India will purchase beauty and hygiene products online, representing 20% of total sales. Moreover, digital will influence about two-thirds of all sales in the category, the research found.

Each of these shifts has caused an accompanying change in retailing. For example, throughout developing Asia, consumers now make fewer trips to larger stores, instead flocking to convenience stores. In fact, small-format stores are winning against their larger rivals. Even the ubiquitous neighborhood "sari-sari" variety stores in the Philippines—sometimes located in the proprietor's home, with limited space for refrigeration—continue to be popular, serving as convenient places for shoppers to meet their immediate needs and to top up purchases made elsewhere. As consumers show their preference for smaller stores, long-standing channel distinctions are vanishing before retailers' eyes. Indonesia's convenience stores and larger minimarkets now serve similar shoppers. In China, small-format groceries are catering more and more to on-the-go consumption, blurring the boundary between small grocers and food-service outlets. At the opposite end of the spectrum, the steady rise in digital connectivity is fueling a boom in online sales and transforming the way brands talk to consumers to influence purchase decisions. We see every day in the news that Southeast Asia is rapidly becoming a core battleground, where global, Chinese and local e-commerce titans (such as Amazon and Alibaba-backed Lazada) will eventually clash. All of this is altering the rules of the game for consumer products companies, requiring them to rethink their "where to play" strategies. Failure to adapt can leave even large and established brands gasping for air.

Consumer shifts in developing Asia have accelerated in the past few years, making it tougher for brands to survive and win in a region that remains critical.

At the same time, a different set of issues requires brands to reevaluate their "how to win" playbooks. For example, throughout the world, as more brands become available, consumers become more "repertoire" in their shopping behavior—that is, more willing to try more brands. Numerous studies show that consumers will switch among competing brands, as well as across adjacent categories in the same consideration set. In fact, a 50% churn rate within a brand's user base is common in developing Asia, where loyal customers are becoming as rare as the Mekong giant catfish or the Javan rhinoceros. This is a particularly thorny situation for brands as they strive to serve the increasingly popular small-store formats. Consider that a typical hypermarket or supermarket might offer 10–15 brands of laundry detergent, for instance, but in a small-format store with significantly less shelf space, there is room for only about 2 or 3 brands. This intensifies the need for brands to focus on the right product mix.

Another new complication for companies trying to plot a winning strategy is bifurcated demand. In the last 20 years, most value growth came from the "belly" of the market. Now we see the middle shrinking, while a category's premium and discount ends grow faster.

Dealing with developing market fundamentals

In addition to these shifts, several fundamental factors have long made it tough for brands here. Because Asia's distribution channels are highly fragmented, it is harder to gain household penetration, the most important contributor to brand growth (see Figure 1). Across categories and countries, increasing penetration is the primary way to build big brands. This is a key insight from the research of the Ehrenberg-Bass Institute for Marketing Science, summarized by Professor Byron Sharp, director of the Institute, in his book *How Brands Grow*, based on decades of observations of buying behavior. Our analysis proves that the connection between increased household penetration and category share gains holds just as true in developing markets as in other markets we have observed.

For example, categories like soap and biscuits have millions of outlets in India, a large proportion of which are supplied indirectly by wholesalers. That makes it extremely hard for brand owners to keep a line of sight to what is happening in stores and to make the right calls about what to prioritize—and, just as important, what to *deprioritize*. With shelf space in such short supply, it is critical that brands decide which products and stock-keeping units (SKUs) should play the "hero" role on the shelf and receive the most salesforce attention and disproportionate investment allocation, as opposed to spreading resources across too many SKUs.

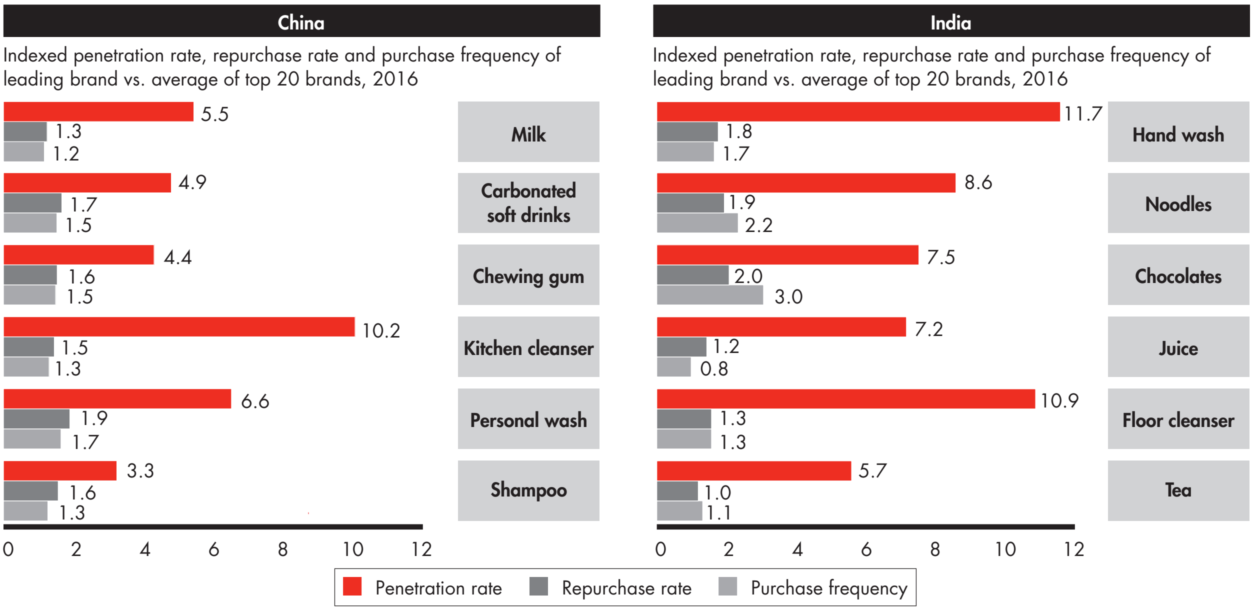
Another fact of life for companies selling in developing markets: The category rules (the fundamental "laws" spurring growth in a given category) vary drastically among markets, even neighboring markets. This makes it challenging for brands to transfer solutions from market to market. A single example: the varying consumer preferences for coffee across Southeast Asia. Malaysians prefer it sweet with milk and hot, but in Thailand it's more common to drink coffee that's sweet with milk and cold. For their part, Indonesians like their coffee with sugar, and mostly without milk.

It is no surprise that accelerating market changes, combined with these basic challenges, serve as obstacles for brands aiming to achieve sustainable growth. Despite developing Asia's massive opportunities, fewer than 20% of brands outgrow their categories in this region, according to our research—roughly the same proportion as in low-growth developed markets.

Developing markets' rebound

Developing markets contributed average annual growth of more than 11% (vs. about 1.7% for developed markets) between 2006 and 2011, sometimes at higher margins. Beginning in 2012, China's decelerating growth, falling commodity and oil prices, and exchange rate fluctuations all took their toll. While developed markets continued to grow at about 1.6%, developing markets slowed to 7.6. Looking forward, however, we see developing markets in Asia and elsewhere, with a projected 12.5% increase in disposable income from 2016 to 2021, reemerging as important catalysts for global growth. But there's a big difference. In the past, just being in a market was half the game. Now, with more multinational and local competitors, it is critical to have the right how-to-win strategy.

Figure 1: Penetration is more important for brand leadership than repurchase rate or purchase frequency



Notes: Repurchase rate is the percentage of brand shoppers buying more than once a year; indexed penetration rate is calculated by dividing penetration rate of leading brand by average penetration rate of top 20 brands; the same calculation is used for purchase frequency and repurchase rate
Sources: Kantar Worldpanel; Bain analysis; NCP reported by IRI through its CSIA

Emerging winners

Who's getting ahead? We see nimble local players gaining traction as they quickly adapt their playbooks to the new market realities. Patanjali, which has risen to prominence over the last five years or so, has created a $1 billion business in India by leveraging its distinctive brand centered on natural ingredients and the founder's image, as well as its fit-for-purpose range across categories. Meanwhile, Mayora achieved nearly 25% sales growth from 2015 to 2016. In countries like Indonesia and the Philippines, it became the ready-to-drink (RTD) tea leader in the most premium format (PET bottles) by deeply understanding consumer and category rules, introducing a product with very high consumer preference, promoting a compelling brand message with increased above-the-line advertising, using extensive distribution and ensuring excellent in-store execution. The company hopes to repeat that success in bottled water in those markets—particularly in Indonesia—where no brand has yet been able to win against Danone's Aqua.

We also see huge opportunities for incumbents (whether local or multinational) that are able to adapt quickly and use their scale advantages to both capitalize on these emerging trends and further consolidate their competitive positions.

Indeed, companies can turbocharge growth by relentlessly increasing *penetration* and *consideration*. This requires focusing on what shoppers actually do (as opposed to what they *say they do* in surveys), planning from the "shelf back" to win the battle in stores, and relying heavily on advanced analytics tools to generate the insights that help brands make the smartest trade-off decisions. Brands can win in developing Asia by taking a systematic approach to rethinking their strategies, from "where to play" (e.g., categories, price segments, channels, geographies and target user base) to "how to win" (e.g., brand, assortment and store choices, as well as investment choices). Then they need to deliver the change, building new capabilities and forging alignment across stakeholders and functions, especially sales and marketing. The trouble is, even with the best plans, too many brands in the region get tripped up by predictable hazards. We have identified five common pitfalls and ways to overcome them. We'll look at them one by one.

Pitfall 1: Sailing with outdated maps (when brands don't fully understand or embed category fundamentals and consumer occasions)

In any business, it's critical to know where to play. However, we find that too many brands in developing Asia underinvest when it comes to learning the basics to support that big decision (see the sidebar "Category fundamentals dictate the right moves"). Many simply fail to understand their core consumers and the behavior that leads them to make a purchase choice. Brands often have a limited view of their competitive sets and the true boundaries of their product categories. For example, some companies instinctively compete only within the traditional limits of a specific Nielsen-designated category, without understanding how consumer behavior contributes to category overlap, opening up big opportunities for expansion. A market leader in one beverage category may miss the extent to which consumers who buy from a different category would be willing to substitute. Also, consumers' consideration sets vary greatly among user groups (e.g., ethnic groups and age groups) and occasions (e.g., daypart or consumption occurrence). In many markets, carbonated soft drinks are interchangeable with RTD tea, juices and energy drinks at work; yet carbonated soft drinks are predominantly a standalone category choice when consumers are looking for a refreshing beverage at home. Many brands also fail to understand other essential elements of their category rules, such as whether the category is more repertoire or less repertoire.

Category fundamentals dictate the right moves

Let's look at two different situations and how they might affect a brand's priorities.

Brand 1 is the market leader in a beverage category, with 51% volume share, but it is watching its penetration decline while the category grows by 10%. Its brand appeals to value consumers, and its shopper base exhibits more repertoire than loyalist behavior. Consumers of this beverage are a roughly equal mix of adults and children, and they use the product fairly equally in the morning and afternoon/evening. The key to recapturing penetration is to invest to grow the category, communicating the product's nutritious benefits to differentiate and boost value, and spending heavily for constant exposure with both above-the-line and below-the-line advertising. The brand should focus on its hero SKUs and trial packs, pricing to increase penetration through such means as affordable pack sizes. In the store, it should actively avoid price and channel conflicts to ensure that promotions pass through to shoppers. It also needs to increase distribution and shelf space.

Brand 2 is a market leader with 77% volume share in a snack category growing at 18%. It is gaining penetration, and consumers of its premium brand are more loyalist than repertoire. The shopper base consists mostly of adults who are attracted by the product's healthful benefits. For this brand, messaging should focus on the product's premium status. With the exception of targeted campaigns, the brand should avoid price promotions and pursue innovations in packaging, such as smaller pack sizes or more premium variants. It should establish best-in-class distribution to make the most of competitive trade economics and push for in-store exposure with displays and secondary placements.

Winners avoid this pitfall. In China, skin care purveyor Pechoin serves as an example of a brand that understands its category rules. In three years, from 2013 to 2016, Pechoin increased penetration by 6%, which delivered 44% sales growth and a 2% boost in market share. Its strategy involved maintaining a focus on its core products while selectively expanding premium products, in line with consumers' growing interest in natural ingredients and Chinese medicine.

Successful companies know where they fit in, and then determine where and how to compete. They set growth initiatives that are consistent with category fundamentals and then translate those initiatives to operational metrics to track progress and capture value. For example, the best companies often use consumer repertoire maps to define the true category boundaries and determine how they differ across user groups and occasions, including the small but growing portion of sales made online. Understanding those rules is also important to identify the real competitive set, and the core channels and segments, for a given brand. Hence, category rules are critical to making the right choices in *brand messaging strategy, product assortment and in-store execution*. These are the three key assets for boosting penetration and the three assets we emphasize in the Bain Brand Accelerator®, an approach designed to help brands unlock growth. We find that when brands are not clear about where to play, they can encounter a number of pitfalls involving how to win.

Pitfall 2: Saying it wrong (when brand messaging is inconsistent or not appropriate for the category or target consumers)

In developing Asia, it is easy to get brand messaging wrong. The goal is to anchor a brand (or a brand story) in consumers' long-term memories. However, many brands have a relatively short history in these markets, and haven't yet established and reinforced the kinds of memory structures that have worked so well for them in the developed world. Lacking this history, brands in the region often make the rookie mistakes of sending out inconsistent messages or changing their messaging too frequently. That only confuses consumers at a time when the brand is trying to establish memorability and embed a message in consumers' minds. Companies need to reach consumers and repeat their brand messages at scale—saying them loudly enough for people to hear and memorize, as they get bombarded by thousands of messages each day.

Another common mistake occurs when brands fail to allocate their spending where it matters the most. For example, in repertoire categories (those with a higher customer churn rate and consumers switching across alternative brands), companies need to focus their resources and constantly confront shoppers in the store, persuading them to buy the brand instead of a competitor's brand. That means a bias to in-store activation efforts and spending. Also, we find companies spreading their investments too thinly across brands. As a result, they fail to achieve the thresholds required to help consumers remember any one brand at the moment of purchase decision.

Winning companies overcome this pitfall by understanding the guiding principles for building high-quality brand memorability. They determine what distinguishes their brand assets from those of the competition. Based on those differentiated brand assets, they are clear about what the core brand imagery or core visuals need to be, and ensure the message is consistent and repeated over time, building on a legacy and reinforcing distinct brand associations in the minds of consumers. They also determine how their media support generates sales, investing to find out if they are spending enough (and consistently enough) in the right places to make the brand stand out and gain a larger space in consumers' repertoires. Digital marketing has opened up vast opportunities, in some ways leveling the playing field for smaller brands.

Fortunately, there are strong examples of brands that have gotten this right in developing Asia. A well-known case in point is Lifebuoy in India, which has consistently promoted its soap's hygiene benefits, educating rural Indians about the link between germs and illness, and reinforcing the message that Lifebuoy is fast at killing germs. In a memorable campaign at a large fair, it even had the words "Did you wash your hands in Lifebuoy today?" stamped on 2.5 million rotis (Indian bread). These efforts have contributed to the brand's success in India. In China, L'Oréal strengthens its memory structures by digitally engaging with shoppers at multiple touchpoints throughout the online decision process, while Pechoin stands out by aggressively promoting itself on social media in a range of ways—everything from collaborating with scientists to educate consumers about the herbs it uses, to signing young celebrities to endorse its products.

Pitfall 3: Succumbing to the lure of the new and different (too much range complexity and lack of focus on hero SKUs)

Traditional trade still abounds in developing Asia, and convenience stores are gaining in popularity. Both small formats offer limited shelf space. Yet we find that many brands are unwilling to reduce their product assortments (or tailor their ranges to unique channel needs) in order to focus on the proven and profitable hero SKUs with the highest velocity on the shelf, year after year. Too many brands equals complexity on multiple fronts. It clogs up the supply chain, dwarfs the impact of heroes on the shelf and may result in stocking products that are difficult to sell. By comparison, brands that outperform start with the assumption that assortment complexity is a by-product of growth that silently kills it. They use simplicity to reignite growth by transforming heroes into "superheroes." In developing markets, winners tend to emphasize only two or three products in each channel or sub-channel. That means making thoughtful choices about the right product mix to best serve the needs of core consumers in each channel.

Winners invest to understand their heroes by brand and SKU, determining the value propositions they present over non-heroes. Then they look for the gaps in their current assortments, ultimately creating portfolio and investment strategies focused on the top sellers for target consumers and occasions.

Again, the answer starts with knowing shopper behavior and being clear about the role of different SKUs in any given channel. For example, if the core consumer is an impulse shopper of an on-the-go beverage, that calls for a smaller pack size and different positioning than if you're targeting home consumers of the same beverage. In addition, the best companies use innovation selectively, to break penetration barriers, to convince existing brand users to trade up, and to avoid creating more complexity in their businesses and on the shelf. Simplicity delivers attractive cost and cash opportunities, but the most successful companies go beyond just cutting long-tail SKUs to achieve such benefits. They take a repeatable approach to simplification that also delivers value for retailers and consumers.

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Pitfall 4: Losing at the first moment of truth (failing to deliver in the store)

There is a basic reason that in-store execution is especially important in developing Asia. Many brands, especially domestic brands selling in these markets, lack the abundance of data that allows for sophisticated account planning in developed markets. Without such data, FMCG players need to be as focused as they can on making their hero SKUs available and visible to fundamentally repertoire shoppers, often in a very constrained space, while ensuring the retailer has incentives to push those SKUs.

Companies need to tailor their efforts to shopper behavior within a particular store format. That's why the best brands take a segmented, channel-by-channel approach. In Malaysia, we've seen a food company focus on upping its presence in convenience and grocery channels. The key was to understand what boosted sales for the particular store formats and link execution priorities (SKU range, activation efforts and in-store assets) to those factors. For its efforts, the company saw first-year growth accelerate from low single digits to high double digits. Similarly, a snack brand in Malaysia achieved doubledigit growth in just a few months by refocusing salesforce activation efforts around a handful of distinct shopper drivers in each channel and sub-channel. But this segmented approach to in-store execution, so critical for success in developing Asia, is becoming trickier in a time of blurring channels and limited insights into what really spurs consumer conversion.

Here, too, the most successful companies play by the real category rules: Solid consumer insights inform their priority in-store execution and activation moves. This helps brands understand which SKUs to distribute where and the level of promotions required, for example. Without linking those activities to category rules, salesforces are simply operating blind.

Winners are clear about what matters most to increase sales on a channel-by-channel basis. In convenience stores, it's mostly about impulse—focusing on ways to convert at the point of purchase, whether that's in coolers or at checkout. In traditional trade, it's typically more important to master the route to market to maximize numeric distribution, working with distribution partners and wholesalers to improve availability and visibility. In modern trade retailers, the objective is to increase basket size, by incentivizing cross-selling and tailoring price pack architecture to meet consumer preferences, for instance, or increasing planned purchases through promotion. With that in mind, merchandising management and trade terms are key. Whatever the channel, though, in-store activation should focus disproportionately on the top two or three sales drivers for core products at all times, in order to boost shopper conversion at the first moment of truth.

Pitfall 5: Failing to build the right route to market (multiple channels require multiple approaches to clear the last mile and influence consumers)

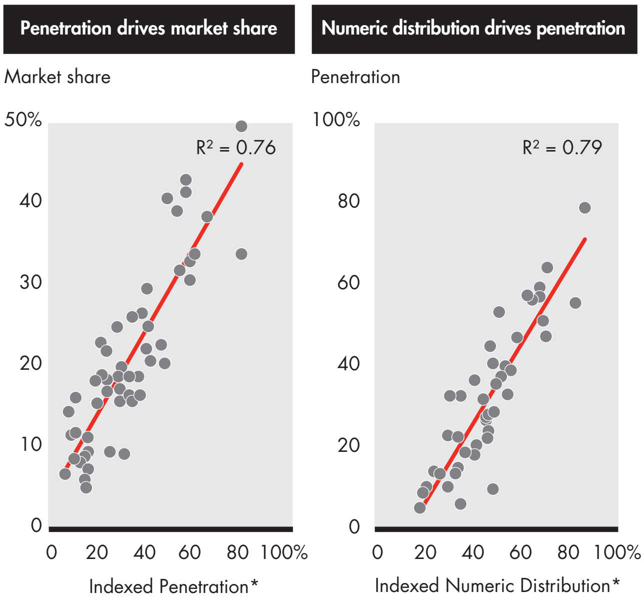
In developing Asia's fragmented retail environment, brands have much to gain by ensuring that products get through the last mile and by retaining the ability to influence consumers' decisions at the point of sale. Unfortunately, some brands fall short in their efforts. As the channels continuously evolve, brands need to stay on top by evolving their routes to market and servicing models for maximum sales effectiveness, at lower costs to serve, using newly available technology when possible.

This requires brand owners to establish a dual system to serve fast-growing, organized modern retailers and convenience stores while also maintaining a grip on small-drop traditional outlets. We see many companies—especially multinationals—falling into a common trap. They strive to optimize for the former (which offer the largest opportunity for cost efficiencies), forgetting that traditional trade still accounts for the majority of sales for many food and beverage categories today and will continue to do so into the foreseeable future. Consider that there are more than 3 million traditional trade outlets in Indonesia, and roughly 1 million in both the Philippines and Vietnam. By underplaying traditional trade, brands miss the numeric distribution that serves as the key ingredient for penetration in developing markets (see Figure 2).

Winning in developing Asia is not easy. And in addition to the region's unique market challenges, brands face the same issues as their counterparts in the developed world.

Indeed, in most cases, the winners in this area are mostly "local champions" that achieve high numeric distribution and extensive penetration in traditional trade. They use direct distribution (or a high-touch managed distribution model) in high-density areas, where modern trade is typically more established. At the same time, they build a multitiered distribution network and collaborate with hundreds of wholesalers in low-density rural areas, making the big trade-off between having influence over outlets and having penetration across outlets to maintain a sustainable cost to serve.

Figure 2: Numeric distribution is a primary contributor to penetration across developing markets in Asia



Factors for numeric distribution	
Assortment	• **Product preference:** Target minimum 70% at launch • **Pack/price architecture:** Focus on hero SKUs and price at sweet spot
Store	• **Dual route-to-market models:** Higher-touch direct coverage for modern trade in high-density areas; low-cost wholesaler model for fragmented traditional trade • **Trade economics:** Competitive margin structure for retailers and wholesalers
Brand	• **Demand generation:** Consistent, at-scale advertising and promotion to generate demand pull

Note: Each dot represents a brand in the cream biscuits segment in different India states; (*) Indexed Penetration/Numeric Distribution=Penetration/Numeric Distribution of manufacturer on Penetration/Numeric Distribution of segment in same market; all data is for FY2017.
Sources: IMRB; Nielsen

Winning in developing Asia is not easy. And in addition to the region's unique market challenges, brands face the same issues as their counterparts in the developed world: consumers' ever-increasing repertoire behavior, the paramount need for an omnichannel presence, shrinking budgets, price pressure from the online channel and intensifying competition from small, insurgent brands. Yet some companies are getting ahead by making the right strategic choices and pulling the right levers for growth. They start with the goal of boosting penetration and consideration. They take a systematic approach, from rethinking the category to delivering change. They invest to understand true consumer behavior and the true category rules, determining the right categories, price segments and channels where they should compete. They are equally systematic about determining how to win, creating consistent and repeated messaging to anchor their brands in consumers' memories, pruning their portfolios to suit both consumer and retailing requirements on a channel-by-channel basis, and striving to perfect their in-store execution. They don't get trapped by the pitfalls that keep their competitors behind.

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Key contacts in Bain's Consumer Products practice in Asia

Mike Booker in Singapore *(mike.booker@bain.com)*
Jason Ding in Beijing *(jason.ding@bain.com)*
Nader Elkhweet in Jakarta *(nader.elkhweet@bain.com)*
Bruno Lannes in Shanghai *(bruno.lannes@bain.com)*
Paolo Misurale in Singapore *(paolo.misurale@bain.com)*
Nikhil Ojha in Mumbai *(nikhil.ojha@bain.com)*
Larry Zhu in Shanghai *(larry.zhu@bain.com)*

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