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Leading Ideas

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Who Is Your Next Customer?

by Jairo Senise

Listen to the consumer.

This straightforward directive lies at the heart of all successful consumer products businesses, but many companies mistakenly take it to mean paying attention solely to existing consumers. Indeed, for any consumer products company that seeks to continually expand into new markets — an absolute must in today's global commercial environment — the real trick is to develop effective ways to listen to *potential* consumers. This requires a lot of painstaking, on-the-ground spadework. But whether a company makes automobiles, laundry detergent, or (as my own company, Gruma, does) flatbread, listening to potential consumers is an essential task. And it's particularly important for those who seek to adapt their product to a foreign market.

Entering any foreign market is complicated, with challenges that can range from cultural to logistical to legal. But as globalization takes hold, more Western multinationals, as well as successful companies from emerging markets, such as Gruma, will be looking to enter new emerging markets. Gruma, based in Mexico, has manufacturing plants in the United States, Latin America, South America, the United Kingdom, and Australia, among other places. In October 2006, we opened a US$100 million plant in China, and we are spending the same amount to open a factory this year in Japan. Our success along the way has come in part from the realization that our product is a *carrier* of local tastes. It's our job to adapt our carrier to those local tastes. And so much can go awry if we do not listen to potential customers.

At Gruma, we use two methods: psychographics and "chefmanship." Psychographics is the study of personality, values, attitudes, interests, and lifestyles. The use of focus groups and specialized research into local psychographics helps executives answer one of the most important questions about potential consumers: Are they willing to try something new, and specifically, are they willing to try *your* new product? If psychographic research shows that they are not, the operating environment probably won't matter. Companies should be prepared for a long period of slow acceptance and plenty of difficult and expensive promotional activities before the product catches on, if it ever does. In other words, if the psychographics are less than desirable, you need to decide whether the market is worth the effort.

People in certain markets are looking for healthier, less fattening foods, and are thus open to products like Gruma's wheat flour sandwich wraps. Other markets are becoming faster-paced, and so flatbread, which can be eaten on the run without utensils, is a good fit. In still other areas, such as China, people seem predisposed to experimentation. They want to try new things. Tortillas are more expensive in China than traditional sandwich bread, but they are growing in popularity nonetheless.

In many European countries, however, such as Portugal, Spain, Italy, Greece, and France, where the food is healthy and the eating habits are good, it's harder to make inroads. But it's not impossible. Take the Italians, for instance. Because they have very traditional eating habits, quick-serve restaurants that offer our flatbread were not successful for many years. But when these quick-serve restaurants appeared in tourist destinations such as Rome, Venice, and Florence, local resistance ebbed. Tourists frequented the restaurants and ate our flatbread, and the local Italians became curious and wanted to try it themselves — particularly the younger Italians.

Our other approach to listening to potential consumers is through chefmanship. If psychographics answers the question, "Are they willing to try something new?" then chefmanship answers the question, "How can this new product incorporate local tastes?" For Gruma, it is a matter of figuring out which flavors and textures a particular market prefers. But this idea applies to all consumer products companies with a global strategy: A company selling detergent must pay attention to the fragrance the soap gives the clothes; an automaker might emphasize certain colors and shapes.

In Texas, for example, people generally like fluffier tortillas than those sold in the rest of the U.S. In California they like elastic tortillas, and in Arizona they like chewy tortillas. Why? At first it baffled us, but then we learned that each of those areas had been settled predominantly by Mexicans from a particular region, where variations in the local quality of tortilla manufacturing ingrained certain preferences. Now we target our sales accordingly.

China is another good example of how we adapt our flatbread. We could sell our wraps with chicken and beans, as we do in Mexico. But it makes more sense to sell them with duck and plum sauce. We've hired chefs whose sole job is to develop recipes with Chinese food for our wraps. Once we know what flavors and recipes work, we go to the culinary schools, quick-serve restaurants, hotels, and canteens, and we share the recipes and teach how to prepare them.

Understanding our potential consumer allows us to adjust our marketing strategy accordingly. In less-mature markets, we often sell equipment and flour directly to artisans who make fresh flatbread locally. In more sophisticated markets with well-developed infrastructure, we use fast-food restaurants for distribution. And in markets where our product has such a strong appeal that consumers want to cook flatbread recipes at home, we sell premade flatbread in supermarkets and other food retailers.

Extending into foreign markets poses obstacles, but fortunately, strategies are now emerging to help executives parse these new challenges. Our approach is to simplify the process by breaking it down into two fundamental questions: Are potential consumers willing to try your product, and if so, can you adapt it to their tastes? Nothing guarantees success. But getting clear answers to these two questions substantially increases your odds.

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The Statecraft of Business

by Sven Behrendt

The fall of the Berlin Wall nearly 20 years ago brought forth a chorus of toasts to the victory of a democratic world order and "the end of history." Those looking ahead predicted greater simplicity in international affairs, with political considerations taking a backseat to free global markets.

These forecasts couldn't have been more wrong. Rather, the post–Cold War world has turned into a battleground between old and emerging political and economic actors and ideologies, resulting in an ever more fragmented global marketplace. For multinational corporate leaders, the farrago of political and economic ideas, social aspirations, statism, and regional biases is disquieting and challenging.

To be successful, strategies pursued by corporate leaders must take into account the possibility of sudden fissures in global politics; strategies should also be consistent with the political environments in which the organizations operate. Managing under these conditions, executives must be knowledgeable about the world's various political systems to nimbly adapt their companies to the preferences of governments, regulators, and global policymakers.

The field of international relations offers five alternative views of the structure of the global political environment. Each is accurate in its own way; each suggests a different strategic approach to international expansion; and each fits best with a different set of companies.

New Realist companies assume that the bulk of business interactions will take place within, not across, regions.

New Realism: Balance of Power

In a New Realism world view, power is spread among the world's nation-states, which are constantly threatened by their fellow states, near and abroad, and continually struggle to maintain and enhance their standing. Although New Realism, with its numerous power centers, would seem to portend global uncertainty and war, the system can be fairly stable. Most of the time, states use their strength, either individually or in alliances, to balance each other out. With the Cold War over, adherents of New Realism assume that the current and emerging global powers, such as the U.S., the E.U., China, India, Japan, and Russia, will try to improve their positions on the worldwide chessboard, and several regional players — Iran, North Korea, and Venezuela, for example — will challenge the influence of global powers in their neighborhoods.

A New Realism corporate response requires self-sufficiency of operations within the various power centers. It assumes that the bulk of commercial interactions will take place within, rather than across, regions; hence, supply chains are developed within regional commercial centers, instead of spread across the world. A New Realism management structure is decentralized. A global headquarters provides limited corporate functions, and mediates the interests of business units operating in the different world regions. This ensures diversity throughout the corporation, which should reflect the regional characteristics of the hubs in which it operates. The marketing strategies of such organizations cater to the distinct cultural appetites of different markets and eschew unified worldwide brands.

The oil industry typically operates from a New Realism world view, forced to navigate the nationalist objectives of governments around the globe and their ever-changing rules regarding access to their natural resources.

Hegemony: Dominant States

Adherents of hegemony believe that the desirable goal of international stability requires a sole powerful state to articulate and enforce the rules of interaction among the most important members of the system. The hegemonic power imposes its rules on the international system — thereby determining political order — primarily through a large, growing economy, leadership in technological or economic sectors, and military strength. At the close of the Cold War, the U.S. in many respects took on the role of a global hegemon. But hegemonies can also exist at the regional level. For example, at different times Germany and France have played a dominating role in the European integration process, South Africa is the leading political player in Southern Africa, and Israel has the strongest military position in the Middle East.

A corporate strategy informed by hegemonic stability theory follows the lead of the hegemonic nation and maintains substantial parts of its operations inside its big consumer markets. The hegemon offers extra advantages for corporations located within it or protected by it, advantages not accorded by market forces but obtained through political pressure. A company following a hegemony strategy makes sure that its branding borrows heavily from the symbols and images that the hegemon displays around the world. Its management structure fits with the hegemon's, employing an often dominating leadership style.

Many American corporations — Halliburton is the most visible example — sought to gain from U.S. hegemony in Iraq after Saddam Hussein was deposed. Similarly, Chinese natural resource companies are benefiting from their government's expanding hegemony in parts of Africa.

Institutionalism: Global Rules

Institutionalists favor rules, negotiation, and strong governance. Instead of competing against each other, states settle for cooperative arrangements. Under this approach, the United Nations Security Council manages peace and war; the World Trade Organization enforces rules of free trade; the Kyoto Protocol guides climate change regulations; the World Bank fosters global economic development; and the International Monetary Fund, among other things, promotes currency stability and cooperation.

The institutionalist corporate organization prefers to play by rules established by strong international regulators. It is a strong proponent of multilateral trade arrangements, international protection of intellectual property rights, and standardization of labor and environmental regulations. This type of company has a global supply chain and standardized products throughout the world. Its management structure is based on strong central administration and command structures.

Pharmaceutical, bioscience, and high-tech industries, which depend on consistent innovation and rigorous intellectual property rights, tend to view the world through the lens of institutionalism. They participate in shaping and championing international rules.

Liberalism: Social Order

Liberal thought assumes that societies, pressure groups, trade organizations, corporations, innovative entrepreneurs, and all the other actors that constitute civil society play an important role in shaping the global order. Societies engage in complex transnational interdependencies, driven by decreasing transaction costs, while the use of military force and power balancing — the realm of government — becomes less important. Liberals argue that the decline of military might as a policy tool and the rise in economic interrelationships should improve the chances for cooperation among states, a cooperation supported by increasingly powerful societal actors. Indeed, the information revolution has had a substantial impact on how nonstate actors, such as NGOs, can readily influence the beliefs of people in other jurisdictions and thus affect the global order.

Liberal corporations could be viewed as loose-knit "movements," usually with flat management structures in which managers act as visionaries, setting the principles, but letting colleagues negotiate the details. In these companies, workforce diversity, cultural diversity, gender diversity, and social diversity are considered strategic assets, enabling the business to respond to the heterogeneous demands of a global society. Liberal corporations produce global brands targeted at customer segments based on income position, rather than cultural identity.

Google is an apt illustration of a liberal company, because it enables Web users from any national background to search a culturally neutral database for information that suits their specific needs. Interestingly, Google and other electronic content providers are being strong-armed into compromising their liberal principles when they operate in hegemonic environments, such as the censored Chinese Internet.

Anarchic corporations exploit markets wherever possible, converting huge transaction costs into commercial activities.

Postmodern Anarchy: Fatalism

In this chaotic world view, the nation-state as anchor for global order ceases to exist, and political disorder is endemic. Government fails because it can no longer meet its core responsibilities — controlling its territory, providing safety and security, managing public resources, delivering services, and protecting the poor. Fragile states abound. The rule of law is nonexistent and corruption is widespread.

The anarchic corporation looks into the eye of the storm and sees opportunity. It exploits markets wherever possible, converting huge transaction costs and collateral damages into commercial activities. This is a Hobbesian company, expecting the worst and planning accordingly. This approach requires a stoic, almost fatalistic sensibility: If life is to be nasty, brutish, and short, at least a company can be profitable in the near term.

Facing widespread instability, such organizations work around impotent national governments by bribing their way into new local markets, which they move in and out of quickly. Brand development is minimal because long-lasting customer loyalty is undesirable; rather, anarchic organizations compete by offering items at the lowest possible price and level of quality to generate significant revenue. Relationships with suppliers, financiers, employees, and customers are elusive; the company knows that alliances in an unstable world should be formed only on an ad hoc basis.

An anarchic environment is traditionally the bread and butter of organized crime, but is also familiar to companies that invest in unstable republics in Africa and Asia.

As these examples illustrate, there is value in bringing the frameworks of international relations into the debate about corporate strategy and globalization, if for no other reason than to help managers understand the political environment they face and the political attitudes of their own companies. Corporate strategy must be responsive to the changing world order and anticipate its dynamics to be successful. The world view of most companies provides managers with room to adapt their strategy to any or all of these frameworks; however, most managers tend to focus on the framework that fits their own aspirations most closely. Corporations are not mere objects of the evolution of international affairs. They also help to shape that evolution.

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How to Be a Demographic Realist

by Lord Andrew Turnbull

Across the developed world, the demographic profile is changing. According to United Nations projections, the proportion of the global population over 65 years old will triple between now and 2100, from 7 percent to 21 percent. The population is aging more rapidly in some countries, such as Italy and Japan, and less rapidly in others, such as the United States and the United Kingdom. But in all countries, this demographic shift raises challenging new questions, not just for retirement and how it is to be financed, but also for the world of work — and the transition between the two.

Although most people understand that this change is taking place, they do not realize how large it will be and what its implications are for our working lives, for how we provide in advance for retirement, and for how support and care will be provided and funded in the future.

Regrettably, we are also prisoners of a number of assumptions that, if they were ever correct, will no longer hold in a changed world.

Assumption 1: We'll work long enough to pay for our retirement. Not necessarily. There has been a dramatic change in the ratio of years spent at work to those spent in retirement. For example, in Britain in 1950, 83 percent of one's adult life was spent working; 17 percent was spent in retirement. By 2050, if the retirement age remains the same, only 63 percent of one's adult life will be spent working. We will have moved by 2050 from five years of work for each year of retirement to 1.7 years of work per year of retirement. But surveys show that, until the age of 75 or so, people consistently underestimate the length of their retirement and under-provide for it financially.

Assumption 2: As our society gets richer, we can afford to retire earlier. Retirement is viewed as a reward for our prosperity; our increased wealth, we believe, can buy more leisure. The basic flaw in this is that people are not taking into account increasing longevity and its associated higher costs. We may be wealthier, but retirement is more expensive. Many assume that their standard of living can be maintained in retirement with the help of retirement products that address inflation, such as price-indexed annuities and indexed pensions. But inflation is not the only problem for the elderly. For example, for people in the last 10 to 15 years of life, not only do health-care costs rise significantly, but new expenses are incurred for services they can no longer perform themselves, such as home repairs or landscaping.

Assumption 3: It is useful to retire people early, because there are not enough jobs for everyone. The belief that older workers must be displaced to free up jobs for younger ones was bad economics in the 1980s, and it is even more misguided now. Increased output generates more income and expenditure, and thus creates more jobs. The consequences of this "lump of labor" fallacy are serious: It fosters an ageist agenda in the workplace. Laying off workers over age 50 or forcing them to retire results in a loss of skills and intellectual capital. It also accelerates the drain on public and private pension funds.

Assumption 4: Income and status at work rise linearly, and people retire at their most senior position. In some countries, employment regulations make it difficult to continue working once you reach the age of retirement or have officially retired from the organization. Perpetuating this approach reduces organizational flexibility and promotes ageism. Yet this has been the dominant employment model, and retirement planning and final-salary pension computations maintain this no-longer-appropriate status quo.

Assumption 5: We accumulate assets while working and spend them during retirement. People tend to invest in equities when younger, then shift toward annuities and other fixed-income instruments as they age. Yet we cannot afford to stop growing our income base too soon. A secure income at 65 is unlikely to compensate for a long decline in relative income over 30 years of retirement. Some of the money we are not drawing on in the early years of retirement still needs to be invested in growth-oriented funds or stocks, particularly if the size of our pension pot at retirement is not adequate.

Assumption 6: During retirement we won't change residences more than once. The home we live in when we retire may be great for fit, car-driving 60-year-olds, but could become unsuitable later. In many countries, however, there is a dire shortage of housing stock to accommodate the different stages of old age, especially as mobility decreases. Consequently, many older people continue to live in houses that are too big, are too expensive to maintain, and may pose hazards to them.

Assumption 7: The state will provide social and health-care services for us in our later years, allowing our children to inherit a significant portion of our estate. The shift in demographic ratios will make public social and health-care services extremely expensive. By 2050, the U.S. will have 2.6 people of working age for each person over 65. In the U.K., there will be only 2.2 people of working age for each retiree, compared with 5.2 in 1950. As a result, governments will be forced to reduce their commitments by insisting on the use of personal assets to pay for care before help from taxpayers is invoked.

Many individual and collective assumptions about work, retirement, and longevity are no longer valid.

As we have seen, many of the individual and collective assumptions about work and retirement are no longer valid. For a couple who reach the age of 65, there is a 50 percent chance one of them will survive to the age of 90, and a 17 percent chance that one will reach 100. We must recognize that long lives are no longer unusual and plan for such a future.

For the individual, that means saving more and not fully counting on state care, corporate pensions, or inheriting a parent's estate in its entirety. We also must be prepared to work longer, to keep learning, and to be flexible. This may involve giving up a senior position for a less demanding one, or deferring all or part of one's pension in order to tap better retirement income later on when the need for it is greater.

For this to occur, however, organizations must change as well. Leadership models need to be reconfigured so that management responsibilities can be transferred to younger staff. New advisory or client-facing roles could be created for senior managers so firms can continue to benefit from older employees' experience and judgment after those individuals have handed over the reins.

Addressing the issue of our aging population is a matter for society as a whole. We need to remove restrictions on how pensions are drawn and provide retirement-financing products better suited to the longer lives of the elderly. Pension plans — both public and private — must rescind incentives for early retirement and should offer full actuarial value to those who choose to defer retirement. Annuities need to contain provisions for growth after retirement while controlling risk.

Changes are already afoot. Retirement and pension ages in many Organisation for Economic Co-operation and Development (OECD) countries are starting to increase. Legislators in the United States and the European Union are under constant pressure to tackle age discrimination. Restricting compulsory retirement will foster — or force — changes in work culture and minimize ageism. Our mental model is already changing from one of a "cliff edge," with an abrupt change from work to retirement, to more of a "plateau."

But the bigger question remains: Are we prepared to live with the new assumptions that this demographic shift will require of us?

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Paving the Silk Road

by Fadi Majdalani, Ulrich Kögler, and Simon Kuge

In centuries past, dusty caravans ferrying everything from spices to porcelain made their way along the Silk Road in the Middle East, a route prized for its connections to both Europe and Asia. As it turns out, that historic roadway presaged the vast transportation and logistics network that is now emerging in the region, and that could be a significant source of economic growth for many years to come.

A number of factors put the Middle East in a prime position to play the role of trade hub — both on a global scale and for regional and local markets. There is, of course, its geographical position, equidistant from Northern and Middle Africa; Pakistan; and nations of the Commonwealth of Independent States, such as Kazakhstan, Turkmenistan, and Uzbekistan, with good road and sea links to these areas. As trade increases between Europe and these countries and between Europe and Asia, the Middle East stands to benefit.

More important, however, is the changing nature of global shipping. For decades, shippers have had to make one fundamental choice: Should they send goods quickly but expensively via air freight, or slowly but more cheaply via sea freight? In the past, most shippers opted for the latter choice, accepting that the market's preference for larger inventories meant a slower speed to market. But product cycles have sped up, greater competition has made demand less predictable, and companies are managing their stock more closely — making sea freight transportation far less appealing. At the same time, air freight transport is still much too costly to be viable for most goods.

But there's a hybrid solution: hubs that offer an easy conversion from sea transport to air transport. This lets shippers start with cost-effective sea freight transport and, if the need arises owing to unexpectedly brisk sales or unforeseen additional demand, switch the goods to air freight while en route. Given the distance and travel time between Europe and Asia, the Middle East is a natural location for sea-to-air conversion. Governments in the region should consider which of the following kinds of hubs to develop, while logistics and transportation companies — and their clients — should watch carefully.

Global Multimodal Transport and Logistics Hub. This represents the most demanding option, requiring access to the sea, as well as huge investments in infrastructure. It also demands the availability of a large free zone around the port–airport infrastructure that adheres to global quality standards, where companies can receive and hold goods without paying duty; evidence that the port and airport operator can smoothly manage complex processes; competitive handling charges; and living standards that can meet the demands of a large expatriate community.

Currently, the only global hub of this kind in the Middle East is in Dubai, which has invested heavily in enhancing its logistics facilities. It already has Jebel Ali, the Middle East's largest seaport, and the government is in the process of constructing the Dubai World Central complex. This includes an international six-runway airport, slated for completion in 2008, as well as a logistics city that will extend the Jebel Ali Free Zone to about 130 square kilometers. Even without these new features, however, Dubai already converts more than 100,000 tons of freight from one mode to the other annually. To compete with Dubai, another Middle Eastern contender would have to be blessed with a more preferable geographic location — for instance, Oman, on the Indian Ocean, or, to a lesser extent, the greater Jeddah area on the Red Sea, both of which offer a more direct route from the Asia/Pacific region to Europe. However, hubs tend to engender a virtuous circle — i.e., the greater the number of connections provided by the hub, the more attractive the hub becomes, and the more carriers want to be connected to it. Therefore, considering the volume in the area, it is unlikely that there will be more than two global multimodal hubs in the Middle East.

Regional Logistics and Distribution Hub. Ideally, this could act as a distribution point for goods throughout the area immediately surrounding the Middle East. Such hubs need not be as large as a global hub nor accommodate as great a range of vessels, but the quality of services and processes must adhere to the same high standards. The infrastructure must simultaneously provide good connections to global hubs and exporting countries as well as excellent links to neighboring regional markets. This requires appropriate overland connections within the region, as well as a port infrastructure for smaller ships. A regional hub does not have to be multimodal but instead could simply be an airport or seaport in a strong trade lane. A few traditional gateways to the Middle East, such as the Nile Delta, the Red Sea ports, Kuwait's coastal area, and the northern shores of the Persian Gulf, could develop into regional hubs.

Domestic Transport and Logistics Services. Finally, if a country cannot meet the needs of a global or regional hub, its government could focus on the development of domestic transport services. The infrastructure to provide such services is not easy to design. For instance, roads must mimic the actual flow of trade and goods within the country. Ports require a balance between efficient handling of short sea transportation and allowing for dedicated connections to long sea passages. Middle Eastern countries with smaller domestic markets, such as Bahrain and Qatar, may lack the scale and volume to support a global or regional hub but could potentially execute this approach.

In addition to strengthening infrastructure, governments in the Middle East must implement the standard regulatory policies that lend themselves to growth, such as permitting full foreign ownership of local entities, which allows multinational companies to control their assets in the region without relying on local partners. Simultaneously, governments must offer services crucial to the logistics industry, such as efficient customs declaration.

The countries that succeed at establishing robust transportation and logistics networks can expect to see a number of benefits: increased economic activity, improved industry competitiveness as foreign challengers come into the market, and growth in job opportunities. Those that fail, however, may find themselves falling by the wayside on the well-traveled Silk Road. +

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