



IPEC Event Report: Tapping the Emerging Middle Class in Emerging Markets

(ZUERICH) The economic center of gravity is shifting from the West to the East. “The purchasing power of six Asian countries will most likely exceed that of Europe and North America combined by 2030,” said Katja Berlinger [MBA, J05] by way of introduction to a panel of four industry leaders at an INSEAD Alumni Association Switzerland event in February, which attracted 85 participants to the Zunfthaus zur Saffran in Zürich for an evening conference.

By opening a global leadership hub and a campus in Singapore back in 2000, INSEAD was ahead of the curve. However, it is one thing for a prestigious business school with an established international reputation to make such an investment. What about Swiss enterprises? How can they invest to grow their enterprises in Asia?

The risks and potential setbacks can be daunting; according to anecdotes shared by the panelists who have all forged their post-INSEAD careers by investing in Asia and its emerging middle class. For example, local employees unwittingly committing ethical breaches by using inside information to trade stocks, or an entire management team and half the sales force not returning to work after the Chinese New Year, encountering business cultures that are contrary to ethical and anti-corruption standards established in Europe and North America, or having a factory nationalized by foreign governments.



*The panel from left to right: **André Hoffmann** [MBA'90D], VP WWF, Non-Executive Vice President of Roche Holdings and Givaudan; **Jack Clemons** [MBA'94D], CEO Bata Shoe Organization, Lausanne, active in Asia for 18 year; **Johannes Müller**, CEO of Dätwyler Cabling Solutions AG, active in China for more than a decade and **Andries Diener** [MBA'05]], formerly Schindler's Head of Marketing in China and co-founder Diener Syz Real Estate, which focuses on energy efficient property investments in Asia;. Moderator and event organizer: **Katja Berlinger** [MBA, 05]].*

Long Term Commitment

First off, a long term commitment is essential. “When we go in, we look at the next 50 to 100 years and we invest accordingly in capacity, but also in relationships with the people,” said Jack Clemons, CEO, Bata Shoe Organization, representing the voice of a consumer-oriented company. Other types of businesses, based on know-how or high-tech, face the challenge of the wide spread between Europe’s prices and much lower incomes in emerging markets. Again, a long term approach is required. For example, the pharmaceutical company Roche, which was already present in China before the Cultural Revolution, understood that in order to increase cancer patients’ access to treatments in China that a private health insurance ought to be established. Over a period of several years, Roche teamed up with the reinsurance company SwissRe and ten local Chinese insurance companies, including the three largest, to help them develop additional policies that will cover cancer treatment and care. Roche didn’t get into the insurance business; however it provided information and resources within creative and innovative partnerships.

Bata’s Clemons underlined the need to accept that new markets can be volatile. And that the dynamics of the emerging middle class in new markets must be understood one by one, which again takes time. It is true for consumer-oriented companies, as well as high tech and industrial suppliers. “Unfortunately, one cannot say that what was successful in China will be successful in Vietnam or Thailand, but that makes it interesting,” said of Dätwyler Cabling Solutions’s CEO, Johannes Müller.

Clemons agreed that the “Emerging Market” is not a homogenous market. The countries of Asia are not as similar to each other as those in Europe; there is no such thing as a single Emerging Market. The markets are very different within Latin America, Africa, and Asia. The strategy for products and distribution in rural areas is fundamentally different than for Tier one cities. For example, shoes are sold in Bangladesh and Bolivia using a model similar to Tupperware, which would not be applicable in urbanized emerging markets, according to Clemons.

Be Local

Being local is important. According to the panelists, it is not just marketing talk; these companies have invested significantly in order to grow abroad. Roche for example is opening new offices and plants in China. Givaudan is opening a Fragrance Creative Centre and Compounding Facility, including a Perfumery School, in Singapore, in addition to several other creative and production sites in East Asia. Dätwyler Cabling Solutions AG also invested recently in a brand-new industrial cabling production center in China, incorporating two already existing factories.

The strategy is even more pronounced at Bata which makes products in the country where it sells them, with local raw materials and a bespoke distribution system that fits regional variations, whether it is a Tier 1 city or Tier 3 city or rural market. “To be successful in Emerging Markets, one has to be a part of the community. We don’t believe you can do it by sending in expats,” said Clemons. This sends an important signal to the market, that Bata is there, it is there to stay, and it is committed to making it a success.

Müller agreed about the wisdom of local management. “Initially an expat might have to go in place, but then switch to local. It makes sense for an expat to lead a transition to build up something new, or a project, but for long term sustainability it should be local management,” advised Müller. As for Roche, it initially was staffed differently, but today it has a full Chinese management team in place for China, according to Hoffmann.

A Swiss company would be misguided to hope that having a Swiss CFO in place is enough to avoid corruption, fraud, or other type of calamity. “If you think you have control that way that would be wrong, whether he is an expat or not,” said Müller. It is a good idea to have multiple independent communication channels to Swiss headquarters in the areas of general management, financial control, engineering,

production and HR, according to Müller. It is not a one way channel either. “It gives us channels back into the local organization for policy for example, it is easier to implement HR and other policies, controlling and the like,” explained Müller.

Employee Retention

Poaching or “hiring sideways” is rampant in new markets and panelists offered several techniques they use to retain talent. “We invite employees to grow with us, a chance to work in Switzerland, and it is not always about offering more money,” said Diener. He recalled that Schindler did surveys to understand key retention principles and found that continuing education was number one. Career planning was number two, and salary was only number three or four. “Helping them to be successful is what helps to retain people,” said Diener

The retention plan is important, particularly for management that have received training and gained valuable experience. “Competitors will try to recruit them. You don’t always have to overpay but implement ways to keep them, such as offering international careers,” said Clemons. Offering international people international careers is a good strategy. Management teams can be built by recruiting from Emerging Markets. “They may not be from that country, for example, we have a lot of Indians in our Kenyan management team and Peruvians in Indonesia,” said Clemons due to cultural affinities.

International people have “no problem” with working in foreign countries or staying in a position for a year or so. They see it as a career opportunity. “If you can build careers for people, you can build a business,” said Clemons.

Diener agreed and spoke of the mutual benefits. His firm hired a Chinese engineer with a Chinese degree who had been working for a Swiss company. “He understands both cultures and helps us to bridge the cultural difference which also helps to avoid misunderstandings,” said Diener who has learned to speak Mandarin in recent years.

Leapfrogging NGO’s With Sustainability Efforts

The panelists’ companies are not only nurturing talent at the management level, several are offering education, day care, specialized training, and family support, on top of a salary. Being on the ground and understanding the local economy and what affects it is important, not only to be in control of the supply chain, especially for commodities that have extreme price volatility, but to understand specifically what affects the suppliers, be it providing access to a decent education for their children, or making sure that they have a proper food supply.

Being active in Emerging Markets apparently makes sustainability important by default. It seems to be a part of the strategy for growing in new markets in Asia. For example, educating its suppliers, partners, and their families is a part of the strategy at Givaudan, a world leader in flavor and fragrance products. Givaudan imports Benzoin, a peppery-vanilla scented resin used in some food and fragrances from Laos. In order to retain people in traditional rural farming and thereby making it attractive to stay in their villages, as opposed to them leaving for China to seek job opportunities, Givaudan financed the building of a secondary school in the villages, and the training of the school teachers. The company has also funded training in long-term management of ecosystems and sustainable farming techniques. These have resulted in introducing two new crops to the region to preserve the soil and new product ingredients for Givaudan. More importantly, these efforts have resulted in new sources of income for the local farmers.

Bata has found similar investments to be successful. “Where appropriate we run schools and orphanages. The amount of money required is tiny. We use our own employees who volunteer their time to look after

classrooms,” said Clemons. His vision is that the people coming out of those schools become customers, if not employees.

Sustainability improves profitability not only for the companies on the panel but also for their partners and customers. “In our business we know that sustainable buildings have a higher resale value. It is not something that they just do for marketing, particularly in China and Indonesia,” said Diener. Hoffmann agreed about China’s forward-thinking on green buildings, pointing out that the WWF has been advising China on sustainability for a longer time. China has a council that meets on sustainability with NGOs twice a year. Leaders are aware that the last empire collapsed due to a shortage of food.

The panelists’ anecdotes suggest that NGOs have been so successful in getting their message out about sustainability that corporates have now leapfrogged them. When the WWF started talking sustainability 50 years ago, companies did not show much interest. Nowadays, it looks like large corporations know more about sustainability than NGOs.

The Advantages of Being Swiss

There is a positive image of Switzerland abroad that these companies benefit from. “The Swiss reputation abroad is much better than it is here,” said Müller. It helps to set the customer expectations. “They expect us to be a bit more expensive and good quality. They also expect us to be reliable and knowledgeable about sustainability. Whether it is China, Saudi Arabia or Europe, as a Swiss company we have 100 points of credit,” said Müller, adding that customers want to see his factory in Aldorf, even if they know the company is also producing cables in China. “It is about Swiss quality. We have to keep production here even if shop costs are partially higher,” he said.

Bata does not necessarily trade on its Swiss image. “Our approach is to have the best of local design, local sourcing, and local production. In India, Bata is seen as an Indian company. Three quarters of all our stores are in Asia and Emerging Markets,” said Clemons. But from a branding and image and fashion point of view, it is “incredibly important” to be in Europe and to invest accordingly to succeed abroad.

The panel discussion ended with a round of thoughtful questions from the participants. For example, one member of the audience brought up the topic of compliance and ethics issues in Emerging Markets, and the challenge for listed companies, considering that it is “not really clean” anywhere.

The panelists responded that a policy and code of conduct must be in place. Temptation is always there, regardless of whether it is an emerging or developed market. The approach of zero tolerance is practiced by privately, as well as publicly-owned Swiss companies, according to the panelists. “I am confronted with such issues almost every other month. It means that there are contracts and projects that we simply have to say “no” to. We have a strict reporting system with a review at both a local and CEO level to check all items,” said Müller.

In the real estate sector the strategy is similarly scrupulous. “We have to turn down certain projects, particularly as a foreign company,” said Diener. A foreign company should simply have no flexibility when it comes to compliance with the code of conduct.

There was much more interchange following the panel discussion. This report provides a small insight into the quality of the information and know-how that makes INSEAD Alumni Events so valuable to its members and special guests. *Bilanz*, the savvy Swiss business magazine, gave IPEC top marks in February for the quality of this event’s content and entertainment factors. See our translation of the [article here](#).---ENDS