

NANO TOOLS FOR LEADERS®

ENTERING GLOBAL MARKETS: CATER TO THE NICHE

Nano Tools for Leaders® are fast, effective leadership tools that you can learn and start using in less than 15 minutes — with the potential to significantly impact your success as a leader and the engagement and productivity of the people you lead.

Contributor: Mauro Guillén, PhD, Dr. Felix Zandman Professor of International Management, The Wharton School, University of Pennsylvania; and co-author of the new book *Emerging Markets Rule: Growth Strategies of the New Global Giants*.

THE GOAL:

Gain a foothold in a global market by delivering a unique product or service to a niche group of customers.

NANO TOOL:

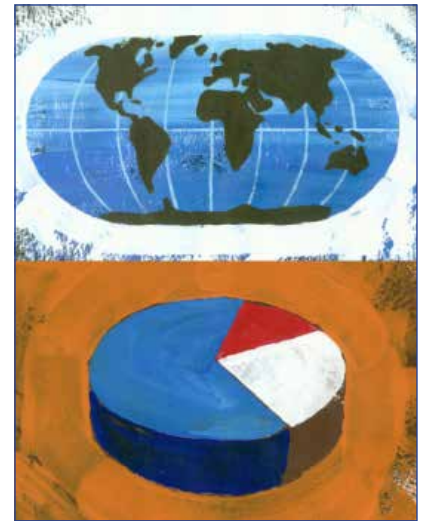
Over a century ago, Henry Ford became the world's first billionaire by launching the age of mass production, paying attention to the mainstream market and ignoring the niches. "Any customer can have a car painted any color that he wants so long as it is black," Ford quipped. And while that philosophy worked well in 1909, the world is now a radically different place.

Globalization has made niches more, not less, relevant, because customer preferences remain fragmented across countries and customer groups. Today, companies from emerging markets are using market niches as launching pads to global domination. Haier of China, for example, recently became the world's largest household appliance brand. Their global success began with a small product launch in a tiny niche segment of the U.S. market — one that large American companies didn't even know existed. Now established firms in any industry who ignore the value of niches can find their market share eaten away by upstarts who have learned how to harness the power of niches.

Whether you plan to use niches offensively, to enter a new global market, or defensively, to keep global competitors from getting a foothold in your own, there are three key factors that make catering to niches attractive: (1) new technologies and production systems allow companies to produce smaller batches at a profit (witness Toyota); (2) selling to a small market segment across a large number of national markets can be enormously profitable; (3) niches can be stepping-stones into the mainstream mass market, especially when entering a foreign country with large, entrenched, local competitors.

HOW COMPANIES USE IT:

- Haier was for decades one of hundreds of minor appliance makers in China. The new CEO Zhang Ruimin saw opportunities everywhere, and acquired the technologies, design capabilities, and portfolio of appliances that allowed the company to "never say no to the market." After becoming the dominant brand in China, Ruimin took the company global, entering the U.S. market one product niche at a time. Small refrigerators for college students, wine coolers, and specialized chest freezers led, ten years after entering the market, to sales of its entire product line in the U.S. The same approach was used in Europe and Asia. Haier became the world's best-selling appliance brand in 2009.
- Corona, the world's largest import beer brand, also grew thanks to niche thinking. Modelo, the parent company, decided to create an association between beer and fun, vacation, and the tropics, highlighting its Mexican origin. A savvy advertising campaign created a positioning that was hard for other companies to imitate. Modelo cap-



tured the niche worldwide. Within a few years, Corona displaced Heineken from its first-place status. Unlike Haier, however, Modelo did not wish to use this niche as a stepping stone into the mainstream of the market. Rather, it prefers to obtain profits from owning this profitable niche.

ACTION STEPS:

1. First, decide which of the two viable niche strategies is the best match for your company:
 - **Global Niche Players** target the same customer profile with the same product or service worldwide. Modelo followed this path to success in the example above. To execute this strategy, you need to identify and exploit the attributes of your products or services that make them different from the established multinationals. Within this niche, what customer needs can you fulfill more effectively than the competition? How are you better, faster, or less expensive? What is so appealing about your offering that it can convince customers to switch?
 - **Discriminators** cater to different niches in a variety of different national markets. They adapt their products or services to the specific needs of each unique group of customers. Haier used this strategy on its march to global supremacy. Finding the right (that is, profitable) group of customers is essential to this approach. To do that, you need to read widely, talk to people outside your circle, and carefully observe what is going on. The global economy is rich in demographic, economic, social-political, and cultural change. Hidden in that confusing mix of trends are profitable niches for you to exploit.
2. **Pursuing a niche requires discipline.** Once you've found a potentially profitable niche, devote yourself to it and keep your eye on the ball. Tenacity in exploring multiple ways to serve that market well can make the difference between success and failure. For example, persistence is what helped Embraer beat the odds and succeed with aircraft assembled in an emerging country. Its tenacity in exploiting market opportunities in the regional aircraft segment helped it become a global player in an industry that previously belonged only to the developed world.
3. It's very difficult to **fight against established leaders** in an open battlefield using the same weapons. If you're in this situation, it is better to adopt guerilla tactics and look for underserved market segments in which customers demand products or services specifically suited to their needs (remember, not all customers prefer standardization and global brands). Natura Cosméticos' focus on ecology, sustainability, and social responsibility sets it apart from its well-established mega-rivals in the cosmetics, fragrances, and personal hygiene industries. The Brazilian company capitalized on local, rain forest-sourced ingredients and personalized direct sales representatives to become the number one cosmetics company in Brazil.
4. **Think beyond the niche.** Whether you choose the Global Niche Player or the Discriminator strategy, you need to expand your strategy after you've dominated the niche to exploit opportunities in the mainstream of the market. Keeping that ultimate goal in mind will ensure that your short-term strategy yields long-term results. Thinking beyond the niche of local markets has helped Natura Cosméticos gain a commanding 24 percent share of one of the fastest-growing global markets — high-end cosmetics. Think of niches as a Trojan horse: move in first by stealth, and then by storm.

SHARE YOUR BEST PRACTICES:

Do you have a set of guiding principles that could constitute a leader's checklist? If so, please share it on our blog at Wharton's Center for Leadership and Change Management. <http://whartonleadership.wordpress.com/>

ADDITIONAL RESOURCES:

- *Emerging Markets Rule: Growth Strategies of the New Global Giants*. Mauro Guillén and Esteban García-Canal (McGraw Hill, 2013). Provides an actionable plan based on leaner, more operationally proficient ways for maintaining competitive advantage as the balance of power in the global economy continues to shift.
- *Innovating at the Top: How Global CEOs Drive Innovation for Growth and Profit*. Soumitra Dutta, Roland Berger, Tobias Raffel, and Geoffrey Samuels (Palgrave MacMillan, 2008). Includes interviews with CEOs at nine of the world's most successful international corporations who share fundamental principles for encouraging and supporting innovation.
- Mauro Guillén teaches in Wharton's [*High Potential Leaders: Accelerating Your Impact*](#).

ABOUT NANO TOOLS:

Nano Tools for Leaders® was conceived and developed by Deb Giffen, MCC, Director of Innovative Learning Solutions at Wharton Executive Education. It is jointly sponsored by Wharton Executive Education and Wharton's Center for Leadership and Change Management, Wharton Professor of Management Michael Useem, Director. Nano Tools Academic Director is Professor Adam Grant, author of [*Give and Take*](#).