Taking a new consumer goods category from zero to 100 in no time flat

The race to create categories and subcategories may be your best option in emerging markets. Here's how winners set the pace.

By Mike Booker, Wlademir Gomes, Nikhil Ojha and Robert Schaus

BAIN & COMPANY

Mike Booker is a Bain & Company partner based in Singapore and leads the firm's Consumer Products and Retail practices in Asia-Pacific. Wlademir Gomes is a Bain partner in São Paulo. Nikhil Ojha is a Bain partner in New Delhi. Robert Schaus is a Bain partner in Kyiv.

Pierre-Laurent Wetli, a Moscow-based principal, and Joachim Breidenthal, a principal based in Johannesburg, also contributed to this article.

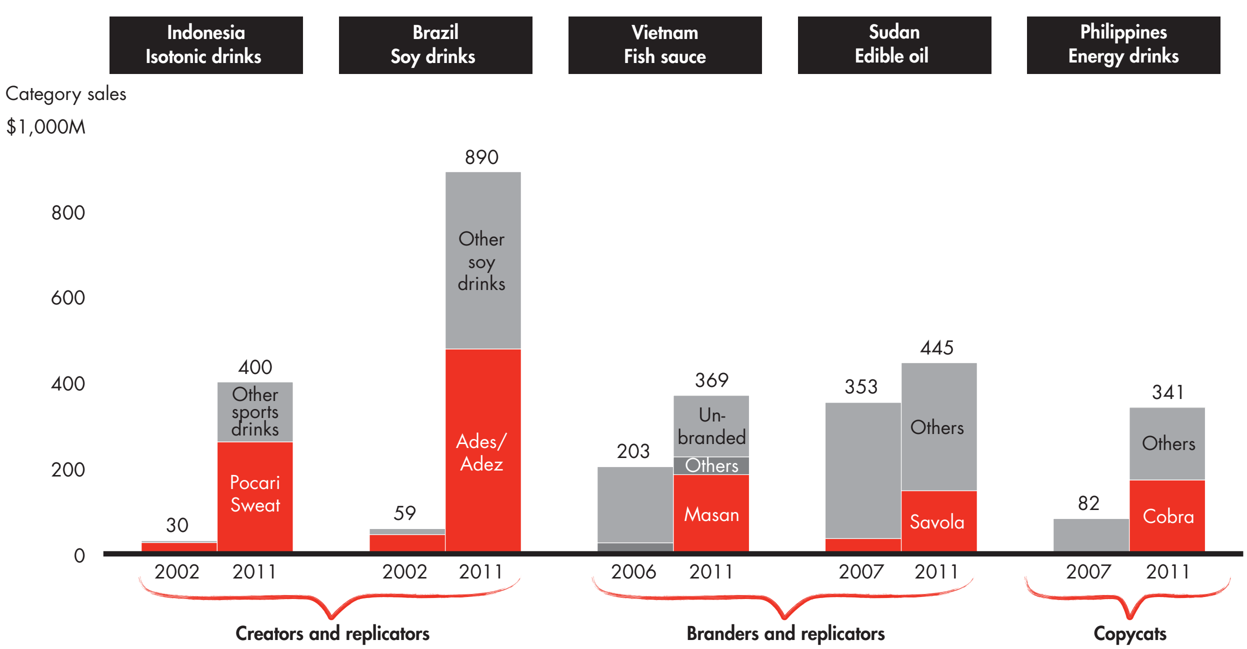
Branded edible oils in Sudan, soy fruit drinks in Brazil, isotonic drinks in Indonesia. Five years ago, these categories were barely on the radar in these countries. By 2011, they ranged between $400 million to $890 million in revenues in these markets, generating significant profits for the companies that took the initiative to introduce them.

Emerging markets may be expanding at a record-setting pace, but many also are undergoing rapid category consolidation. It's to the point where, in many cases, the top three to five players now control the lion's share of a category in any given market. Consolidation can slim margins for incumbents and limit opportunities for new players. That leads some consumer goods companies to survey the landscape and conclude they're locked out. But the fact is, identifying new categories and subcategories and building them from scratch can serve as a powerful path to growth (*see Figure 1*). It allows companies to surmount the consolidation hurdle and capture their share of consumers' rising disposable income. For those that understand how to unleash its power, the category creation strategy is nothing short of a game changer, often delivering success in just a few years.

Over the decades, the real masters have consistently used category creation to pave their way into both emerging and advanced markets. Unilever first set foot in India in 1888 and won its success by introducing consumers to the novel idea of using branded detergent to launder their clothes. Nestlé arrived in Brazil in the early 1920s and has consistently invested in developing branded food and beverage categories. Since then, a succession of multinationals has delivered new categories that serve consumers' basic needs—everything from breakfast cereal to shampoo. And as these basic categories have grown and become consolidated, the opportunities for other multinationals to enter the arena have steadily dwindled.

Now it has come full circle, as new kids on the block discover the power of inventing new categories or subcategories that go beyond meeting consumers' basic needs. That's what Vietnam's Tan Hiep Phat (THP) did

Figure 1: Creators, branders and copycats: Successful category creation models across emerging markets



Sources: Euromonitor; annual reports, investor presentations, Bain analysis; literature search when it brought ready-to-drink tea to the country in 2007 and grew it into a $200 million business by 2011—on the back of its existing beer and soft drinks business. Category creators often aim for the sweet spot between branded basics and luxury goods.

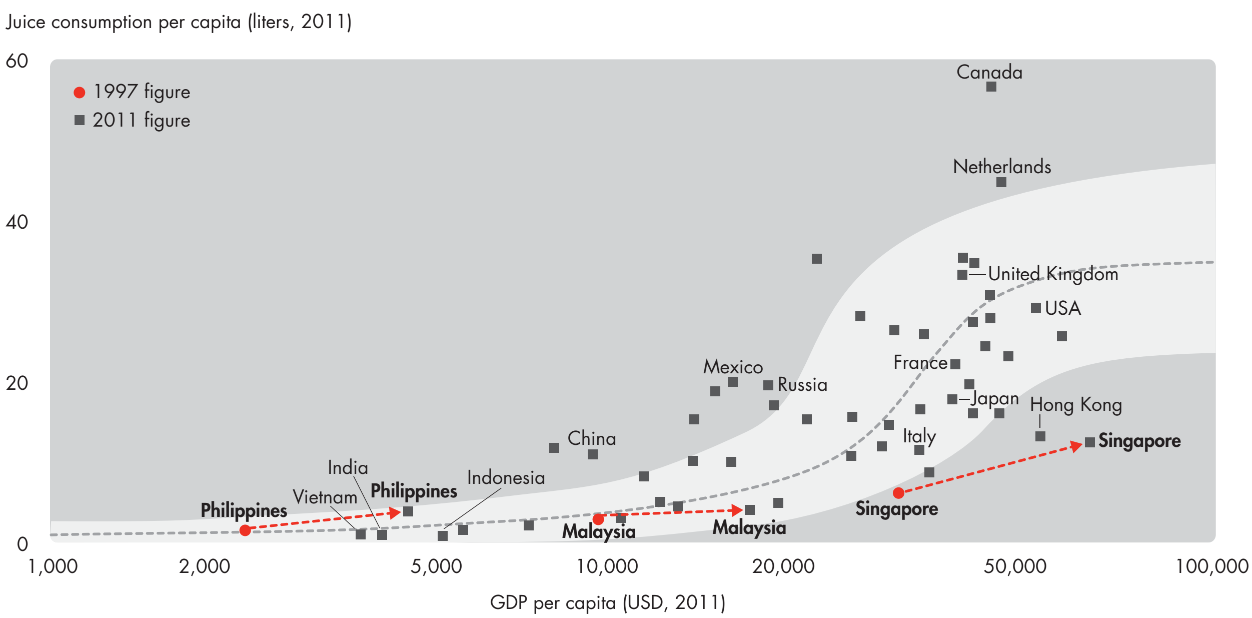
The opportunities have been particularly attractive in food and beverages. Take South Asia and Southeast Asia, where the rush is on to develop the juice category. Players like Del Monte have built the overall juice category in the Philippines to high penetration levels, while Pepsi and Dabur launched the 100% fruit juice category in India—Pepsi growing by 30% and Dabur by 24% between 2006 and 2010 to create a $200 million subcategory by 2010 (*see Figure 2*). Opportunity still exists in markets like Malaysia and Singapore. Companies multiply their successes by taking a repeatable approach and pursuing adjacencies and subcategories, as Danone did when it carved out the functional yogurt subcategory with Activia—now a global success.

This is a fast-moving game where, as the evidence is beginning to show, anyone has a shot at winning: multinationals and local players, incumbents and newcomers, companies selling premium or mass products. (See sidebar, "It's anybody's game.") It's a particularly attractive route for multinational consumer goods makers that are late in entering key emerging markets like the BRICs (Brazil, Russia, India and China).

Drawing on deep consumer insights, companies that take the right steps can make the leap from product introduction to profits faster than they ever could have predicted. Look at Pocari Sweat, which grew sports drink sales in Indonesia from about $140 million in 2006 to $400 million in 2011. Another superstar is Saudi Arabia–based Savola. The company launched its branded edible oils in Sudan in 2006—four years later it was reaping 11% margins.

But even for companies that understand the nuances of category creation, it isn't always that easy. The time it takes to succeed isn't obvious. And some ideas don't pass the consumer test. For others, companies may have trouble replicating those that do, particularly when it's hard to adapt to local tastes. The durum wheat pasta

Figure 2: High juice penetration in the Philippines and under-penetration in Malaysia and Singapore suggest opportunities for subcategory growth



Notes: GDP per capita based on country's GDP with accounting for purchasing power parity; juice consumption in off-trade only
Sources: Euromonitor, CIA *World Factbook*

It's anybody's game

In the race to create categories and subcategories in developing markets, any company has a chance to win. Each of the different types of players capitalize on their own strengths. We've grouped competitors three ways and looked at how they capture the lead.

1. Multinationals vs. local consumer goods makers

Foreign companies win in developing countries by taking full advantage of their experience in rolling out products across multiple markets. This expertise allowed Unilever to capitalize on the initial success of a small company in Argentina that launched a branded soy fruit drink, Ades.

Local players gain an edge by capitalizing on their built-in advantages—strong local presence and insight into local consumer behavior and needs. Drawing on its knowledge of Indian consumers, Marico crafted highly successful rural marketing campaigns to convert consumers in villages to users of branded coconut hair oil.

2. Category veterans vs. new players

Category incumbents employ their established distribution systems and supplier relationships to more rapidly and cost-effectively roll out products across new categories. For example, Masan relied on its broad distribution network and infrastructure to quickly launch its branded table sauces in Vietnam.

New players leapfrog ahead by tapping their previous experiences in the category and forming local partnerships. To replicate its success across the globe, Red Bull employed the brand's highly developed marketing expertise to customize local promotional and advertising campaigns.

3. Premium competitors face off against mainstream players

Competitors in the high end of a category strengthen their brands' equity so that they can maintain premium pricing. That strategy allowed Pocari Sweat to charge higher prices, despite the entrance of other lower-cost players in the isotonic drink category.

Mainstream players achieve leadership by tapping into mass-market segments to boost sales and scale for maximum market penetration. Masan successfully locked out category competitors by moving from the premium to the mass and value segments, ensuring the brand's continued market strength.

category never has taken off in Asia. A non-alcoholic beer that succeeded in other Asian and Islamic countries has failed to catch on in India, largely because many consumers remain unaware that the category exists. And while so many of the opportunities are in non-basic categories, there's a risk of overlooking the potential in nascent markets like Africa to still enter such basic categories as body wash, detergents and feminine hygiene.

So how do category creation leaders successfully navigate these complexities? To position themselves for rapid growth, we've found that consumer goods makers typically take three fundamental approaches. Some companies start a category from scratch—we call them initiators. Some, but not all *initiators*, go on to become *replicators*, bringing their own successful new category to a new market or introducing another new category in the same market. Others are *copycats*—they borrow successful ideas and then develop their own categories or subcategories. Let's look at different models that have worked for each of these three approaches.

The initiators

Fast-track initiators use two models to achieve rapid growth: creators and branders.

Creators. Any company can be a creator if it knows how to spot an unmet consumer need or fill product gaps. Winners develop a new concept by understanding local markets and generating deep insights into consumer behavior. The idea to introduce flavored or spiced croutons as a drinking snack came to the founders of Russia's Sibirsky Bereg more than a decade ago when they saw a consumer need and identified equipment that could make and pack croutons cost-effectively. Within six years, the product was profitable, and the category was generating more than $200 million in sales.

Creators come in different shades. Entrepreneurs start with nothing but a great idea, fortified by their heritage. Other companies create out of need—pinpointing a category gap in stagnant markets and filling it with great products, as Pocari Sweat did in Indonesia. A third type of creators are those companies that are masters at profiting from their core business. They identify opportunities to expand into adjacent markets—the path taken by Vietnam's THP.

Branders. Branders work to switch consumers from unbranded to branded products. Often, they've been in bulk commodity businesses, where they've spotted opportunities to move into branded packaging that addresses specific consumer issues like product safety and convenience.

That's exactly what Masan Consumer did in Vietnam. By convincing consumers to switch from unbranded to branded products, Masan created the branded table sauce category and watched its sales grow by an annual 69% between 2006 and 2011. It persuaded consumers to buy its packaged fish, soy and chili sauces instead of purchasing unbranded sauces in plastic bags in open-air markets. Masan's marketing capitalized on the importance of food hygiene and safety by promoting known brands as safer and more reliable. The company also appealed to the increasing popularity of brands among younger and wealthier consumers. These moves put Masan on the super-fast track. Profits arrived for most of the products within three or four years, with the company's gross margins skyrocketing, from 12% to 43%.

The replicators

Replicators adopt one of two models: repeat by market and repeat by category.

Repeat by market. Companies take product ideas that work in either advanced or emerging markets and then look for markets where they can replicate these ideas with minimal tweaking. Before taking the plunge, they evaluate the cost of tailoring the product for local consumers' tastes or preferences. A simple example: In India, noodles weren't part of the traditional diet. Nestlé successfully brought its Maggi noodle brand to the subcontinent by introducing masala and other Indian flavors.

Unilever made all the right moves as it expanded its soy fruit drink in Latin America. In 2000, the multinational acquired the local Argentinean product, Ades, a chilled fruit juice containing soy protein. It spurred rapid growth of the category, establishing Unilever as the market leader. The company heavily invested in a marketing campaign to educate consumers about Ades's health benefits, building up the brand's image by partnering with doctors and universities.

Once the new category was established in Argentina, Unilever took its repeatable model elsewhere. In its search for the right markets where it could replicate its success formula, Unilever zeroed in on Brazil and Mexico, where consumer tastes and shopping habits are similar to those in Argentina. The strategy paid off. Between 2002 and 2007, Ades captured 57% of the Brazilian soy drink market. Over the next four years, the market more than doubled in value. By 2011, Ades still dominated as the market leader, with 54% of the total category value.

Repeat by category. Companies replicate their success formulas with new categories in a particular market.

Category creation in an advanced market

US consumers are having a love affair with coconut water. Joggers chug it from water bottles to keep hydrated as they work out. Kids sip it with their lunch. Bar patrons order coconut water with vodka and lime. What was once primarily a beach drink in Brazil and other tropical locations, where people inserted straws directly into fresh coconuts, has mushroomed into a $1 billion global business stretching from Rio to New York to London.

While much of the new category creation is taking place in developing markets, the recent successful path of coconut water illustrates an opportunity often missed by consumer goods makers: bringing a new category from a developing to an advanced market. It's an option that's more important than ever as growth slows for existing categories in advanced markets.

Consumer goods companies seeking to boost profitable growth in mature markets could learn a great deal from the pioneering companies that are now extracting profits from coconuts.

The story begins in Brazil with the launch of the Kero Coco brand in 1995 by Amacoco, a local company that introduced the idea of selling coconut water in branded bottles. Amacoco solved two major challenges of packing and selling the highly perishable product: It innovated ways to extract 100% of the flavor and to develop user-friendly packaging that does not require preservatives or freezing. Then, between 2000 and 2006, Amacoco replicated its success abroad, with exports growing to represent nearly 8% of its total sales. The US and Japan account for 90% of its foreign exports. By 2009, Amacoco's success led to an acquisition by Pepsi. Today, top-seller Kero Coco claims an almost 70% market share in Brazil.

Success invites copycats. In 2004, Vita Coco was launched in the US when two American entrepreneurs recognized the potential to promote coconut water as a natural, low-calorie alternative to sports drinks. Competitor Zico appeared on shelves the same year. Now the category is the fastest-growing new beverage in the US, representing $350 million in sales. Coconut water's rapid rise as a premium lifestyle beverage in advanced markets has led to a host of competitors, and they've invested in such innovations as flavored coconut water. The drink now is available on US supermarket shelves in passion fruit-, mango- and even chocolate-flavored variants.

Of course, companies looking to join the coconut water rage aren't limited to advanced countries. Ironically, a major opportunity lies in Southeast Asian markets such as Indonesia, the Philippines, Vietnam and Thailand—some of the largest sources of the coconut water that is fueling the current trend.

They rely on strong distribution systems or retail connections that can't be replicated in another country. The variations include one product in one category, multiple products in a single category or multiple categories. Their local know-how and personal relationships give them a low-cost advantage, an important edge in a country with multiple categories.

The copycats

Copycats are opportunists that believe they can take someone else's successful idea and do it better or cheaper by locally developing their own categories or subcategories. Usually copycats' ventures are one-offs that aren't easily repeatable.

For example, Asia Brewery Inc., based in metro Manila, found a way to copy the successful formulas of winning global beverage companies by tailoring the approach to its native Philippines. In 2006, it introduced its Cobra brand energy drink in returnable glass bottles, a move that offered energy drinks at lower prices and appealed to mass-market consumers. The competitive prices helped Cobra gain share from higher-priced brands such as Red Bull. Only three years after its introduction, Cobra established itself as the market leader.

Five rules for repeat category creators

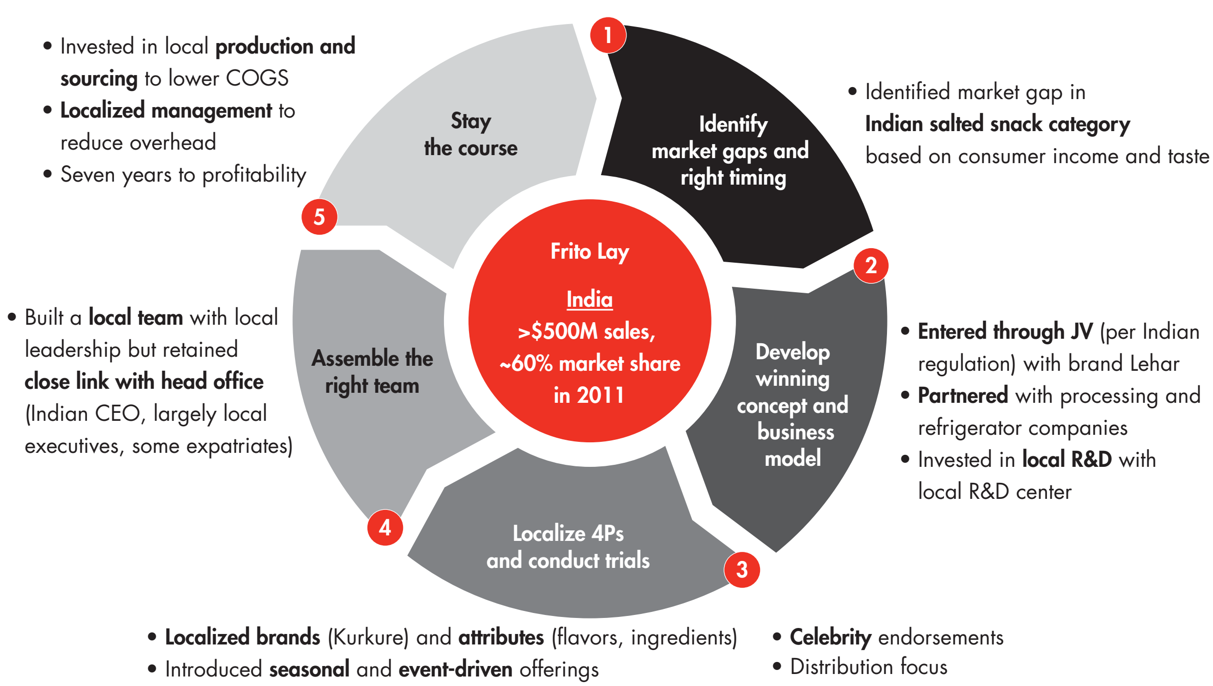
As successes emerge, so do the winning formulas that both foreign and local companies take to envision, create and replicate profitable new categories. We've studied the approaches taken by companies that now are leaders in the categories they've created from scratch. Their experience offers five key lessons about how to accelerate from virtually nothing to leader in the category in a few short years *(see Figure 3)*.

1. Identify market gaps, market needs and the right timing

Some of the best companies we've worked with are systematic at scouting for opportunities and spotting market gaps that competitors miss. They often start with the consumers, looking for products that can serve specific needs or occasions. They also can look at an existing product and say, "Where else will this work best?" Or they routinely evaluate their capabilities and determine how to use them for repeatable success. They may say, "We have a great distribution model. What other categories could it support?" They gather data, conducting focus groups and home visits to gain insights into consumer habits. Their research helps them continuously focus on ways to innovate around convenience, flavor and use. They run market tests. They learn from their own experience.

Such insights could help brands rethink existing categories. In Vietnam, Masan recognized the opportunity in branded table sauce and moved quickly. Its research determined that the local company had an edge over

Figure 3: Frito Lay has built a repeatable model for category creation in many markets



any foreign players: Consumers' strong local taste preferences protected the category from aggressive competition by multinationals.

2. Develop a winning concept and business model that spells out an entry strategy, with a clear path to profitability

Repeat winners understand what consumers need and what they'll pay for products to fill that need. They look at key success factors to determine what would make the proposition profitable. They make reasonable assumptions about how much it would cost to modify the format, how fast they could ramp up volume to break even, what kind of distribution is required and how much promotion would cost. They include the possibility of introducing—at a later date—premium categories and subcategories based on brand image, superior ingredients and such conveniences as ready-to-heat products or smaller pack size. Finally, they develop a viable economic model based on their analysis.

Masan kept building on its success by following this path. The company started by introducing a succession of premium brands for its sauces. The move established Masan as a premium brand—giving the fish sauce maker a halo effect—and also helped speed the route to profitability. The company invested to build awareness, trading up consumers to make it the market leader for branded sauces. It then gained scale by moving into the mass and value categories. By playing in premium, mass and value subcategories, the company inhibited competitors. At the same time, it grew the market by expanding usage occasions.

3. Localize products, price, placement and promotions

With a working economic model in hand for a new category, successful companies then fine-tune it for a local market by focusing on the key success factors.

Products. Category and subcategory creation requires innovative localized products with the right packaging. Pocari Sweat launched an electrolyte sports drink targeted at consumers who needed to rehydrate. It stuck to one flavor but introduced multiple-pack formats: cans, different-sized bottles and even powder sachets. Its key competitor, Danone, took a different tack with its product, Mizone, and introduced multiple flavors but only in a 500-milliliter bottle. In another category, innovative packaging helped Savola convert Sudanese consumers from unbranded edible oils to refined oils. To make its product affordable locally, Savola introduced small sachets of oil designed for lower-income consumers who buy smaller quantities. By 2011, five years after creating the category, Savola had a 33% market share.

Price. Category creators take different approaches to setting prices. Some opt to accelerate profits by positioning their brands in the premium segment for the subset of consumers who are willing to pay higher prices. Unilever offers Ades at higher prices than those of competing soy drinks—a move that helps it maintain higher margins than competitors and makes the economics work from the outset. Others develop more value-oriented products designed to meet a targeted price point. They align pricing with local market behavior or convenience. For example, Petra gained significant ground in Indonesia by pricing its compound chocolate bars at 500 Indonesian rupiah, the traditional coin given to students for after-school treats.

Placement. To achieve their strategic goals, winners choose the right approach to distribution and product placement. For Pocari Sweat, that meant initially distributing only to modern retailers, allowing the brand to reach middle- and upper-income shoppers. The brand was also placed in hospitals and schools and promoted for its health benefits, especially as a way of recovering from dengue fever. Over time, it required much broader distribution. Today, Pocari Sweat can be found in more than 1 million points of sale.

In Africa, Savola's Panda hypermarkets aren't part of the retail landscape where the company hoped to expand. So, it needed to adapt its route-to-market approach as it rolled out across North Africa. The company invested heavily in developing strong third-party distribution networks in markets like Morocco and Egypt. In Algeria alone, the company struck deals with distributors in 28 provinces, covering roughly 90% of the population. In Sudan, it adopted a hybrid model of going both direct and through hundreds of wholesalers.

Promotions. Brand leaders tailor their promotional campaigns to win over priority customers in local markets by paying attention to their needs. New Zealand dairy giant Fonterra differentiated its Anlene brand calcium-enhanced milk formula from other players by positioning it around bone health. The company provided education to consumers and health professionals alike about the brand's bone health benefits. It offered free bone scans in shopping malls. It set up a call center for nutritional consulting. It organized high-profile bone health events to raise consumer awareness. And the strategy worked. Anlene is highly successful across key markets in Southeast Asia and has gained traction in China.

4. Assemble the right teams

Winners know that great category innovation isn't enough. To execute their strategies, they need the right team—seasoned sales, marketing and operations professionals capable of quickly ramping up a local launch. Companies that lack the ability to assess and fill talent gaps can end up ceding growth to a competitor. But assembling such a team is particularly daunting in some emerging markets, where there's often a dearth of skilled and experienced talent.

Salesforce execution is especially important to help grow a new category in an emerging market—products need the right distribution and visibility. But salesforce execution is a common challenge for consumer goods makers that face a fragmented retail environment; multiple layers of distributors, wholesalers and traders; limited shelf space and small store owners with unsophisticated point-of-sale capabilities.

To fill the gaps, repeat category creators often cycle in expert teams with ground-level experience when launching new categories and tailoring them to local markets. These seasoned pros, typically Western multinationals, have done everything from product development to pricing tests to quickly deciding key supply chain issues. They possess distinctive characteristics: an entrepreneurial spirit, drive and determination. Together, their global experience and local know-how provide a powerful competitive edge.

5. Stay the course

Winners understand that creating a new category or subcategory requires patience. Some companies are setting internal records for growth and profitability with a new category, but for others the same level of revenues and profitability takes longer to achieve. Too often, large multinationals lack the patience to wait five or more years to reap a return on their investment. They set certain targets and when they're not met, they simply pull the plug. It's important to take a longer-term view.

Impatience is just one reason companies pull out. Sometimes, a company withdraws when it discovers its economic model is unworkable—and it is wise to do so. But other times companies prematurely give up when their plan could have succeeded with a strategic overhaul. This is especially true in China, where rollouts of consumer goods often involve a wide range of city tiers. We've seen winners carefully stagger launches, based on the amount of time it will take to achieve profitability in each city. The end goal is for the rollout to pay for itself. A brand can accomplish that by launching in careful sequence to balance out the cost. For example, a new category launch in a Tier-1 city is much more expensive than in lower-tier cities and takes longer to recover costs.

We've found that independent domestic companies often are more successful at staying the course. Not only are they saddled with less bureaucracy, they're motivated by necessity—they know that creating a new category can differentiate them from other local players and help shut out multinationals.

As consumer goods makers from all corners of the globe focus their attention on developing markets, they're also starting to accept a new fact of life: As categories consolidate and as consumer incomes rise, sometimes the best new option for growth and profits is to build a new category from scratch. It isn't always easy. But as Unilever learned in the late 1880s, when it made the audacious move of teaching Indian consumers about the wonders of branded laundry detergent, winning a race always starts by taking a single, well-planned giant step.

Shared Ambition, True Results

Bain & Company is the management consulting firm that the world's business leaders come to when they want results.

Bain advises clients on strategy, operations, technology, organization, private equity and mergers and acquisitions. We develop practical, customized insights that clients act on and transfer skills that make change stick. Founded in 1973, Bain has 48 offices in 31 countries, and our deep expertise and client roster cross every industry and economic sector. Our clients have outperformed the stock market 4 to 1.

What sets us apart

We believe a consulting firm should be more than an adviser. So we put ourselves in our clients' shoes, selling outcomes, not projects. We align our incentives with our clients' by linking our fees to their results and collaborate to unlock the full potential of their business. Our Results Delivery® process builds our clients' capabilities, and our True North values mean we do the right thing for our clients, people and communities—always.

Key contacts in Bain's Consumer Products and Retail practices:

Asia-Pacific:

Mike Booker in Singapore *(mike.booker@bain.com)*
Nader Elkhweet in Singapore and Indonesia *(nader.elkhweet@bain.com)*
Bruno Lannes in Shanghai *(bruno.lannes@bain.com)*
Louis Lim in Singapore *(louis.lim@bain.com)*
Nikhil Ojha in New Delhi (*nikhil.ojha@bain.com)*
Pankaj Saluja in Singapore and New Dehli *(pankaj.saluja@bain.com)*

EMEA:

Cyrille Fabre in Dubai *(cyrille.fabre@bain.com)*
Serhan Nadir in Istanbul *(serhan.nadir@bain.com)*
Robert Schaus in Kyiv *(robert.schaus@bain.com)*

Americas:

Federico Eisner in Buenos Aires *(federico.eisner@bain.com)*
Wlademir Gomes in São Paulo *(wlademir.gomes@bain.com)*
Eduardo Hutt in Mexico City *(eduardo.hutt@bain.com)*

For more information, visit www.bain.com