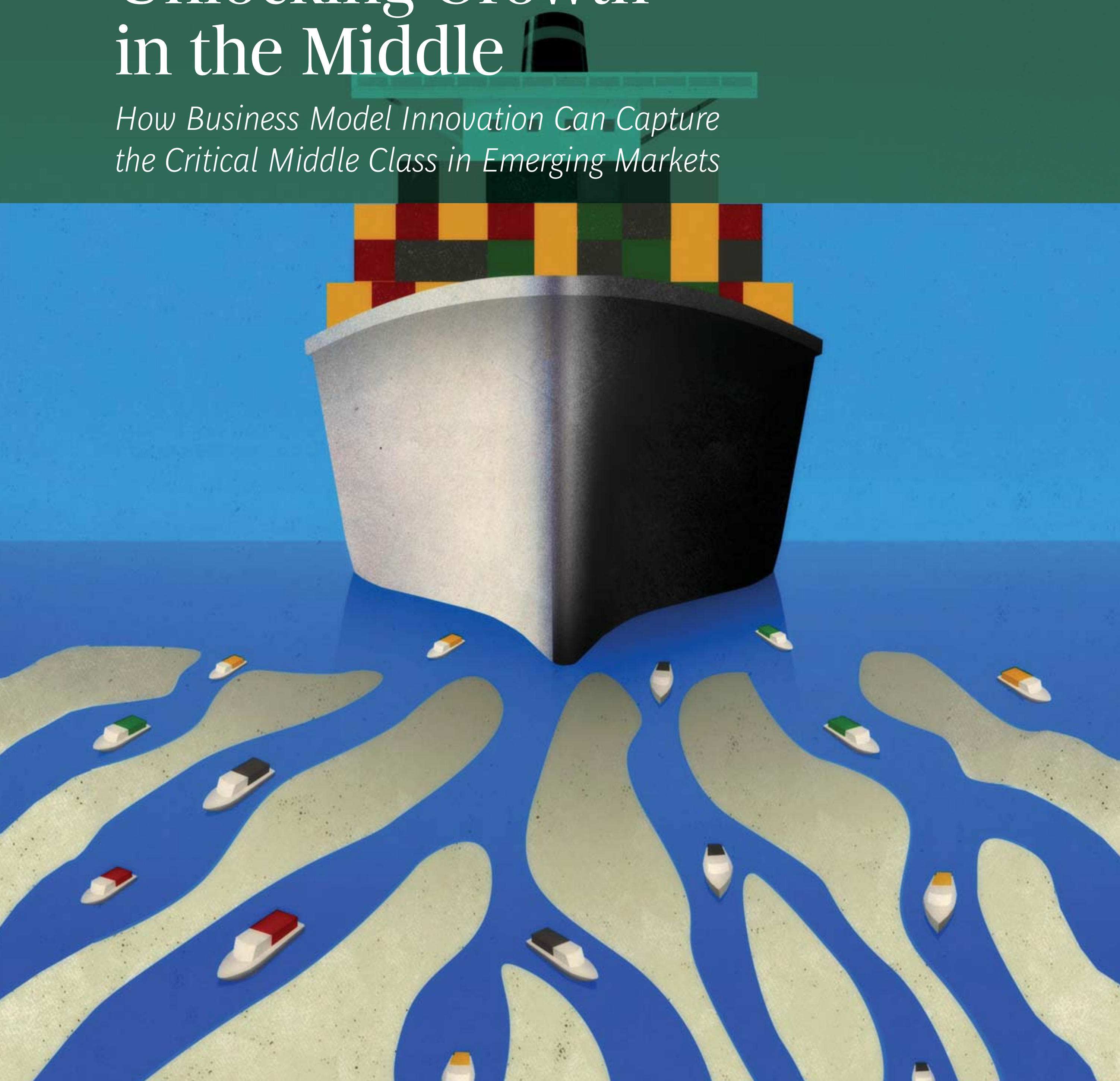
THE BOSTON CONSULTING GROUP

# Unlocking Growth in the Middle

*How Business Model Innovation Can Capture the Critical Middle Class in Emerging Markets*



The Boston Consulting Group (BCG) is a global management consulting firm and the world's leading advisor on business strategy. We partner with clients from the private, public, and not-for-profit sectors in all regions to identify their highest-value opportunities, address their most critical challenges, and transform their enterprises. Our customized approach combines deep insight into the dynamics of companies and markets with close collaboration at all levels of the client organization. This ensures that our clients achieve sustainable competitive advantage, build more capable organizations, and secure lasting results. Founded in 1963, BCG is a private company with 75 offices in 42 countries. For more information, please visit bcg.com.

The Boston Consulting Group

# Unlocking Growth in the Middle

*How Business Model Innovation Can Capture the Critical Middle Class in Emerging Markets*

**Zhenya Lindgardt, Christoph Nettesheim, and Ted Chan**

May 2012

# AT A GLANCE

### You Can't Win Without the Middle

Long-term growth will increasingly depend on capturing the "middle" in emerging markets—the fast-growing segments of rising middle-class consumers and midsize businesses. But capturing and serving these critical customers profitably often can't be done through traditional multinational business models.

### Watch Your Back, Multinationals

Large, successful companies based in emerging nations, such as Brazil's Natura and China's Mindray, are themselves using the middle market to scale up and then disrupt the established economic order. Some of them are starting to threaten multinationals on their home turf, often with low-priced, decent-quality offerings, and sometimes even with higher-priced offerings.

### Think About Every Element of the Business Model

The experiences of companies as diverse as Unilever in consumer goods and Tesco in retail banking show the long-term value of business model innovation. These leaders understand that brands, product features, distribution systems, and ownership structures may all need to be tailored to address unique local circumstances. They pilot and test models cheaply and know how to scale up quickly and efficiently.

Over the next decade or two, one of the fiercest business battles will be for the billions of people joining the middle class in emerging markets—a group that will make up 30 percent of the global population by 2020. Yet many multinational companies are not prepared to tap into this new stream of revenue growth, even if they're already active in emerging markets.

Simply put, their business models were not designed to reach the new middle. Many have imported their existing high-end products and services through standard distribution channels to target the most affluent tier of customers in the largest cities, such as Delhi, Shanghai, Rio de Janeiro, and Moscow. This strategy has proven successful in the past, but the top-tier segment is becoming saturated.

When it comes to capturing the middle in these countries, developed-world business models will fall short in most cases. Multinational companies will need to design and package their offerings differently, rethink their entire cost structure, and adapt their distribution systems if they are to win the middle profitably.

In many cases, multinationals are coming late to the game. The middle market is already being served by highly successful local companies that have ambitions to move beyond their home markets and dethrone the global leaders. For example, the lower cost base maintained by Infosys, headquartered in India, has allowed the company to compete worldwide with tech service giants such as IBM and Accenture. For Brazil's Embraer, sharing manufacturing risks through aggressive outsourcing has allowed it to compete with the likes of Boeing and BAE Systems. Any multinational company that starts pursuing the middle in emerging markets thus will also be learning to defend its markets at home.

Multinationals need to design and package their offerings differently, rethink their entire cost structure, and adapt their distribution systems.

## The Overlooked Middle, in Plain Sight

Business model innovation will be well worth the effort because of the size of the prize. Emerging markets are forecast to grow at an annual average rate of 5.5 percent over the next ten years, compared with just 2.6 percent for developed economies. They will capture about 45 percent of global gross domestic product by 2020, compared with the 31 percent they command today. Strong growth will come not just in the familiar group of Brazil, China, India, Mexico, and Russia; when these five countries are excluded, the 40 countries projected to have the highest growth in real GDP over the next decade include 11 in Africa, Eastern Europe, and Latin America.[1]

In these countries, the big money increasingly clusters in the middle, where average income is growing at 8 percent per year to reach an estimated $4 trillion by 2015. For instance, in China and India, BCG estimates that the middle accounted for 28 percent of households in 2010 in each country, and it will grow to 45 percent in India and 47 percent in China by 2020.[2] (See Exhibit 1.) Income growth in India and China has been driven by economic development—from agrarian subsistence to manufacturing to services.

### EXHIBIT 1 | A Growing Middle Class Will Expand Demand

| | | 2010 Income Distribution | | 2020 Income Distribution | |
|---|---|---|---|---|---|
| | | Households (millions) | Households (%) | Households (millions) | Households (%) |
| China | Upper | 24 | 6 | 91 | 21 |
| | Middle | 109 | 28 | 202 | 47 |
| | Lower | 260 | 66 | 138 | 32 |
| India | Upper | 9 | 4 | 32 | 12 |
| | Middle | 63 | 28 | 117 | 45 |
| | Lower | 152 | 68 | 110 | 43 |

**Sources:** Euromonitor, BCG analysis.
**Note:** Income categories are defined in nominal dollar terms: China, 2010: lower = <$7,300; middle = $7,300–$23,200; upper = >$23,200. China, 2020: lower = <$9,900; middle = $9,900–$31,300; upper = >$31,300. India, 2010: lower = <$6,700; middle = $6,700–$20,000; upper = >$20,000. India, 2020: lower = <$11,200; middle = $11,200–$33,500; upper = >$33,500. All income categories when adjusted for purchasing power parity in 2005 constant dollar terms: lower = <$15,000; middle = $15,000–$45,000; upper = >$45,000.

Many middle-class citizens in these countries still have markedly lower incomes than those of their counterparts in Europe, Japan, and the U.S. In China, for instance, we define middle-market households as earning from $7,300 to $23,200 per year in 2010 dollars, and in India, from $6,700 to $20,000. But these households have middle-class aspirations, and their growth is fueling demand for previously unattainable products, ranging from home furnishings to health care to financial services, now within reach and considered to be necessities. The car market provides a preview of what will occur in many other categories: in 2000, emerging-market cities accounted for 8 percent of total car sales; by 2010, more than 37 percent of cars were purchased in these urban areas.[3]

The geographic pattern of income growth in emerging markets also departs from what multinationals have grown accustomed to. In some emerging markets, disproportionate growth is occurring in smaller cities that have a lower profile on the global stage. Cities with fewer than 5 million inhabitants already represent 83 percent of emerging-market populations and are growing more rapidly than megacities.[4] An estimated 65 percent of revenues in consumer finance in these countries, for example, will originate in midsize cities. The same pattern will hold true for other industries, requiring companies to rethink their sales and distribution strategies.

Some multinational companies are starting to explore midsize cities. In Indonesia, Ford opened its first dealership in Samarinda in 2007, and sales there rose 30 percent over the next two years. In India, Tommy Hilfiger opened stores in Amritsar, Bhopal, and Dehradun in 2010. In China, retail giants Best Buy, Carrefour, and Wal-Mart are rapidly adding stores in midsize cities.

## Multinationals Under Threat

Multinational companies ignore this expanding middle at their peril. Large, successful companies based in emerging nations—a group that BCG calls the global challengers—are using the middle market to scale up and then disrupt the established economic order in their own and other countries.[5] As their offerings and business models become more sophisticated, they will be contending head-on with multinationals based in developed countries. Business model innovation thus will be a critical discipline for defending against disruptive challengers and for reaching the middle in emerging nations.

Brazil's Natura, for instance, generates 60 percent of its revenues from its midrange cosmetics and fragrances and has been able to move into other countries in Latin America by carefully studying local conditions and introducing tailored products. The company also relies on a door-to-door sales force of 1.3 million "beauty consultants."

Other global challengers—such as Huawei, Mindray, and Chint in China, and Tata and Suzlon in India—have already progressed beyond their domestic middle markets, diversifying and expanding into other nations.

Business model innovation will be a critical discipline for defending against disruptive challengers and for reaching the middle in emerging nations.

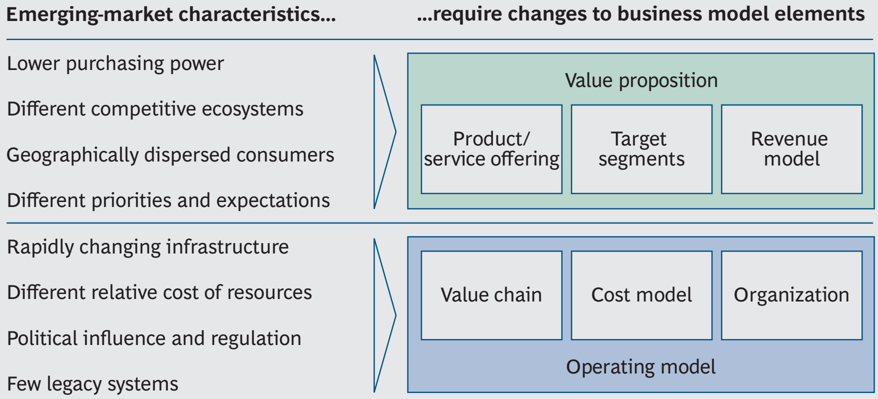
Consider the market for wireless telecom equipment. In 2006, the top seven suppliers were all venerable companies based in the West with long, proud heritages. Today, four of those companies have been acquired or have merged, and two young Chinese companies, Huawei and ZTE, have broken into the top five. Huawei, founded in 1988, has achieved extraordinary, and profitable, growth—reaching more than $32 billion in revenues in 2011. With a low-cost business model honed in China, Huawei now ranks second in wireless network equipment worldwide, behind only Ericsson.

Tata Motors, which developed the Nano, the cheapest car ever produced, is now building on its strength in the Indian truck market to export more trucks to other emerging markets. In Russia, Tata sees tremendous market-growth potential and an opening to challenge local original-equipment manufacturers—if it can tailor its products and business model. Tata's Super Ace small-chassis truck, for instance, will need more torque, a larger load box, a roomier cabin—and, of course, heated mirrors. Tata is weighing other elements of the business model as well—which brands to emphasize, whether to use company-owned service centers, and how to offer more vehicle financing.

## Exported Business Models Don't Apply

To compete with global challengers and crack the middle market, multinationals will need to go through the same intense process of analysis and design that they did to develop their current successful business models. In most cases, some degree of business model innovation will be essential, because of the characteristics of emerging markets, such as lower purchasing power, different competitive ecosystems, geographically dispersed customers, different customer priorities and expectations, rapidly changing infrastructure, and political influence and regulation. (See Exhibit 2.)

**Exhibit 2 | The Unique Characteristics of Emerging Markets Make Business Model Innovation Critical for Growth**




**Source:** BCG analysis.

Business model innovation involves creating a new value proposition (which customers do we choose to serve, with which offerings, and how are we compensated?) supported by a distinct operating model (how do we profitably deliver the new value proposition?) to address a new opportunity. This approach can be used to reinvent a dying core business, explore new avenues for growth, or serve as a repeatable process to create durable competitive advantage. At the very least, elements of the operating model may have to be redesigned to become lower cost, allowing a company to meet the middle-market price point while maintaining margins.

Many companies are familiar with the need to adapt a product to local tastes, usually through slight modifications to the offering. But fewer companies have acknowledged the need to substantially change their business model to gain a lasting advantage. Elements of the value chain that might be taken for granted in developed economies, such as distribution, will be substantially different in emerging markets and will require innovation.

India, for example, prohibits the presence of foreign multibrand retailers such as Wal-Mart and Tesco in order to protect its domestic traders and shopkeepers. As a result, consumer-packaged-goods manufacturers have to devise special, elaborate distribution schemes to reach Indian consumers.

Consider, for instance, the challenges of serving small cities and rural regions in India. In remote areas, there may be a dearth of overnight-delivery services or large warehouse facilities. And many small businesses have limited credit history, so suppliers themselves may have to provide financing. Such features call for business models tailored to Indian needs.

Within different countries, moreover, "the middle" can be sliced many ways according to preferences and spending patterns. The traditional challenges of product development, product quality, marketing, pricing, sales, and distribution will be multiplied across countries and sometimes within a single country. China, for instance, with its huge variety of cultures, ethnicities, and behaviors, is more like the multistate quilt of Europe than one homogenous market.

Business model innovation thus goes beyond single-function strategies, such as enhancing the sourcing or sales approach, to involve an orchestrated set of changes along multiple dimensions of the business to deliver a winning—and profitable—value proposition to the middle. That's challenging to execute but also difficult to imitate if successful. As the head of the China division for a multinational industrial-products company told us: "It is not only a product adaptation issue or a dual-brand issue; it is a matter of the whole business model. The ways that we are doing sales, marketing, R&D, and HR will eat up all the savings, even with a fully adapted product. You need radical business-model change to compete against local players."

## Four Steps to Business Model Innovation

Multinationals that have cracked middle markets think systematically about the opportunities and threats. We have distilled their varied experiences into four steps that can guide executives as they launch their own endeavors.

**Uncover opportunities through customer discovery.** Business model innovation starts by developing a capability in each local market to understand customer needs, buying habits, and price points, and to determine the potential size of the opportunity. Two avenues of discovery can be fruitful here: an analysis of megatrends that will encourage new types of demand and a narrow, deep examination of the hypothesized unmet needs of the middle-market customer. In parallel, the corporate center should identify "overlaps"—situations where middle-market opportunities might span multiple products or markets across the organization.

"The ways that we are doing sales, marketing, R&D, and HR will eat up all the savings. You need radical business-model change to compete against local players."

About five years ago, for example, senior management at conglomerate Philips recognized that the rise of the middle class in emerging markets could greatly benefit several of its businesses. Increasingly affordable health care would spur demand for medical equipment; construction of new and better housing would raise demand for lighting; and greater wealth would spur demand for home health products and domestic appliances. That led Philips to develop a dedicated strategy and business model for the emerging markets, starting with China, India, and Brazil. Philips realized that to capture new opportunities in the middle, it needed to expand its portfolio with a new set of products relevant to local middle-class households. The company also gave greater power to the organizations in Brazil, India, and China through shared accountability.

The second type of customer discovery, narrow and deep analysis, was undertaken by Indian conglomerate Godrej, which designed and marketed a new kind of refrigerator to middle-income consumers in India. Godrej had looked in detail at how Indians were trying to cool food items in the absence of a dedicated device. Godrej worked with many village women to modify its ChotuKool prototype, then built the lightweight refrigerator using solid-state technology instead of a compressor and priced it between $65 and $75. The challenge for Godrej was not to improve an existing product but rather to design a new one tailored to a specific customer segment. Godrej also rejected the traditional channel of sales force plus distributors and dealers, and instead enlisted nongovernmental organizations and microfinance institutions to distribute the refrigerators throughout India.[6] As an Indian conglomerate, the company might have had an inherent advantage, but multinationals can build a similar store of local-market knowledge by conducting rigorous customer-discovery efforts.

Scoping out new customer segments within the middle should be done as precisely and quantitatively as possible—not just to determine the potential rewards of a new business model but also to make it clear to others in the organization that it's worth pursuing. This will require understanding the priorities of the target segment in sufficient detail to tailor a winning offering. Learning as much as possible about potential middle-market customers is essential to unlocking potential demand.

**Convert opportunities into viable business models.** Once the customers' needs have been identified and the opportunity seized, a company can shape the new value proposition and align its operating model to win in the middle. Having identified the unmet needs and the priorities driving those needs, a company must create a business model suitable to meet them.

Scoping out new customer segments within the middle should be done as precisely and quantitatively as possible.

Business model innovation touches all aspects of the business model framework we identified earlier. Changes to the value proposition, value chain, organization, or cost structure may be necessary to reach the middle in emerging markets, which almost surely will result in a departure from some aspects of the company's traditional business model.

Few developed-market customers of KFC, for example, would recognize KFC China's restaurants. KFC China had to abandon the dominant logic that made Kentucky Fried Chicken a global brand: a limited menu, low prices, and an emphasis on takeout.[7] Under new management in the early 1990s, the company stretched the brand so that KFC would better appeal to what middle-market Chinese consumers wanted: a wider variety of foods and traditional dishes than the standard fast-food outlet would offer. Managers enlarged the restaurants to about twice the size of those in the U.S. They needed bigger kitchens to prepare Chinese food and more floor space so customers could linger. KFC China thus positioned itself as a special-occasion restaurant within reach of the middle class.

Configuring this new value proposition required operational changes. KFC had to reinvent its value chain and the manner in which it procured key resources for its restaurants. Because the network of distributors that KFC relies on in many countries does not exist in China, it built its own distribution arm—including warehouses, its own fleet of trucks, and a unit that monitors safety along the supply chain all the way back to animal feed companies.

Like KFC, other multinationals are bound to face underdeveloped physical infrastructure and other distribution challenges in emerging markets. They will need to devise innovative solutions to acquire raw materials or to reach customers, sometimes involving the reinvention of their entire value chain.

Companies may also have to adjust their cost structure in order to reach emerging-middle consumers through lower price points. Otherwise, they may find themselves funding growth with no clear path to profitability. Unilever, for its operations in India, for example, has lowered service levels in midsize and smaller Indian cities in order to manage its distribution costs. Instead of serving retail stores in these cities through just-in-time fulfilment by truck, employees stop in once every two days by bicycle or scooter. And rather than splitting sales, order collection, and delivery among specialist employees, Unilever combines the functions in a single employee.

Multinational companies are bound to face underdeveloped physical infrastructure and other distribution challenges in emerging markets.

Opportunities to lower costs can come from unexpected places. Reebok has leveraged lower real-estate costs and lower-priced shoes and apparel to increase brand awareness and compete with multibrand retailers in India. The company realized that with lower rental costs in smaller but rapidly growing cities, it could open own-brand stores that offer outdated or off-season products at a discount. Reebok thus has been able to create demand for its new merchandise in large cities like Delhi and also penetrate new markets in smaller cities such as Karnal.

**Test, scale up, and iterate.** Before committing valuable resources to new business projects in emerging markets, the corporate center should ensure that they are viable projects. At the same time, companies don't want managers to be so risk averse that they avoid proposing new business models.

The corporate center can play a useful role here by leading and moderating the discussion on how to manage experimentation with different models, how to mitigate the risks, and how to connect the dots among locally adapted business models. That means determining which platforms (in areas such as brand, manufacturing, and procurement) should be common across the enterprise and which will need to be modified for new markets. The center will need the right information, the ability to derive insights from that information, and the key execution capabilities—all of which can combine to produce smart tradeoff decisions.[8]

Business models can be tested cheaply to prove the main hypothesis and avoid ill-advised investments. For example, in developing its microentrepreneurship-distribution mechanism called Shakti, Unilever began with just a few microentrepreneurs. Only after it found that the concept was profitable did it continue with the new model.

Once pilots have paid off, a company will have to scale up quickly and efficiently. Resources for such efforts are typically controlled at the center, so finding the right balance between local autonomy and central efficiency will require leaders at all levels to be more adaptive and collaborative.

For KFC, rapid expansion has been a central feature of its China strategy as it embraces smaller cities. What helped KFC scale up quickly, to 700 cities so far, was another change to its traditional business model: switching from franchising to primarily company-owned outlets. Owning the restaurants makes it easier for KFC to expand geographically, closely control operations, and centralize purchases.[9]

Taking a portfolio approach allows companies to assess and gain a view of the payback, risk level, and launch timing for the entire enterprise.

One way to scale up quickly is to acquire a local producer. Philips used this method in the highly competitive market for health care supplies in emerging markets. Purchasing eight health-care companies in China, India, and Brazil offered a quick route to local expertise, cheaper manufacturing facilities, and closer relationships with hospitals and clinics outside the main cities. The aim was to produce customized, affordable products, such as a basic catheterization lab, yet with differentiating features that cost one-third of what the premium product would cost in Europe or the U.S. Philips opted for a "build, buy, and partner" approach to arrive at a successful model for the emerging markets; pursuing a new business model through acquisition, reinforced by organic investments and strategic alliances, was the fastest and most feasible way to reach scale.

The alternative to going it alone or making a potentially risky acquisition is to gain scale through a joint venture with a local partner. That's what Tesco, the U.K.-based grocery chain, did to increase its presence in Malaysia. Tesco joined with RHB Banking Group to offer simple banking products at 22 of its grocery stores. In 2010, just a year after the two companies launched cobranded credit and debit cards, they introduced a concept that was quite innovative for Malaysian retail banking. Branded "Easy by RHB @ Tesco," the in-store branches offer hassle-free loans, instant cash, and other simple, standardized banking products. Instead of tellers and paperwork, Easy features just a few salespeople and self-service terminals for straight-through processing. For RHB, Easy has led to superior loan growth. For Tesco, it has provided a way to reach and retain more emerging-middle-class customers. And customers are motivated to use Easy because of the additional vouchers they can get for their Tesco grocery purchases.

**Manage emerging markets like a business model portfolio.** Once they reach middle-class customers in several emerging markets, companies will soon find it necessary to manage multiple business models and multiple brands. Just as executives aggregate individual products into a portfolio that can be managed, they should do this for their business models. Taking a portfolio approach allows them to assess and gain a view of the payback, risk level, and launch timing for the entire enterprise, and to share lessons with other local units more readily.

As part of any restructuring, it's often advantageous to simplify decision making so that managers at the local level can take advantage of fast-moving opportunities. Serial business-model innovator General Electric, for example, has found that having local units report to someone high up in the organization keeps emerging markets on the senior-management agenda, enables reverse product or business-model innovation that flows back to developed markets, and ensures that local units get the support they need from the corporate center.

More broadly, multinationals can use common platforms to support business model innovation in multiple markets, so that local units don't have to start from scratch each time. Think "voice of the customer 101" or "distribution in a kit." Some of these platforms can be housed in regional centers or shared-services centers. Regional offices cluster markets that have common consumer characteristics, competitor sets, geographic proximity, or channel development. They generate savings through best practices and automation. Shared-services models have traditionally been used for noncore activities such as call centers, computer support, or cash management, but they could also be applied to other activities that directly touch middle-market customers.

Once a company has a portfolio of emerging-market businesses, power in the organization may have to shift to where the growth is in order to protect middle-market initiatives from short-term thinking or a lack of investment. Companies may also have to adjust their organizational structures to take advantage of the growth opportunities.

Honeywell, a leading supplier of turbochargers for cars, recently changed its organizational structure to attack the growing car markets in China and India. Honeywell created a new position, reporting directly to the head of the automotive business, to oversee automotive operations in the two countries. That executive is now based in Shanghai, a move that reflects the importance of China in the company's plans, the need to ensure that growth efforts receive significant attention, and the importance of developing tailored business models and products to serve Chinese consumers, including those in the middle.

Management of the portfolio should include hard targets and metrics with which to evaluate each of the business models, as well as the whole. Just as a business model in mature markets may not transfer to the developing world, so too may performance metrics need to be altered to reflect new realities. Forward-looking metrics such as market share may be more relevant than financial metrics when entering or expanding in a developing nation.

Once a company has a portfolio of emerging-market businesses, power in the organization may have to shift to where the growth is.

In 2009 at the conglomerate Siemens, CEO Peter Löscher made the conquest of middle markets the main priority for every business unit. Each unit was required to define a strategy for becoming number one in its midmarket, with 50 in-company consultants offered "free" to advance this effort. Siemens established rigorous tracking based on quarterly reviews, with targets set and road maps defined for adding value in each country. Siemens tracks its business units' market share in middle markets, plus more detailed metrics such as the number of product managers and R&D employees in each country, the share of products sourced there, and the level of employee retention.

Organizational challenges in a portfolio of emerging-market businesses will be different from those in mature markets. Efforts to penetrate middle-tier markets through innovative business models often resembles a startup operation, putting a premium on employees with an entrepreneurial mindset. Local teams should think like business builders, considering the entire equation of business economics—thinking that goes beyond a narrow sales focus on exceeding the next quarter's quota. At the corporate center, meanwhile, leaders must be willing to consider alternatives to traditional business models, to free up resources accordingly, and to keep up a regular dialogue with multiple local teams.

## Early Questions for Executives

In the dynamic, even volatile environment of some emerging markets, business model innovation can be challenging for multinationals that have relied for years on exporting their standard models. They may lack the necessary in-market expertise and resources, and they will have to improve their capabilities in global orchestration and consensus building. New business models may also threaten to cannibalize existing business models, so companies must prepare their core business as well.

But there's really not much of an alternative to business model innovation, since ceding the middle ultimately means ceding global leadership as well. No matter what country a company competes in, competitors' business models will soon disrupt the landscape—if they haven't already. Thus, adapting the business model to the middle in developing economies will serve as another line of defense for markets in mature economies.

No matter what country a company competes in, competitors' business models will soon disrupt the landscape—if they haven't already.

To start the process and determine the fitness of the organization, we suggest checking the health of the current business model to identify areas of strength and areas that need improvement or radical change. (See Exhibit 3.) As part of this diagnosis, the senior executive team, including representatives from emerging markets, should gather to address a set of key questions:

- Which countries and segments of the middle can we feasibly penetrate in the next five years? Which competitors exist there today—including global challengers—and what can we learn from them?
- What unmet needs are midmarket customers trying to fill, and what are their highest priorities?
- What new value propositions can we design to fill those needs? Does the organization excel at customization and flexibility in product design?
- How can we alter the operating model to best deliver a new value proposition to the middle at a lower cost? Will we require partnerships or acquisitions?
- Who are our business builders in emerging markets? Do managers at the local level have the capabilities to engage in customer discovery and experimentation to test new models? Are they experienced in leading transformation?
- Does our organization tolerate diversity as well as standardization? Does the governance structure promote rapid decision making?

## **Exhibit 3** | Begin Adapting the Business Model with a Health Check

| | | Key components | Rating relative to competitors: Advantaged | In line | Disadvantaged | Opportunity to innovate? |
|---|---|---|---|---|---|---|
| Value proposition | Product/ service offering | Clarity of value proposition | ☐ | ☐ | ☐ | ☐ |
| | | Compelling "value for money" tradeoff | ☐ | ☐ | ☐ | ☐ |
| | Target segments | Clarity of target segments and their needs | ☐ | ☐ | ☐ | ☐ |
| | | Ability to meet target customers' needs consistently | ☐ | ☐ | ☐ | ☐ |
| | Revenue model | Competitiveness of pricing structure and levels | ☐ | ☐ | ☐ | ☐ |
| | | Balance of customer needs and profitability | ☐ | ☐ | ☐ | ☐ |
| Operating model | Value chain | Competitiveness/strategic advantage of in-house activities | ☐ | ☐ | ☐ | ☐ |
| | | Suitability of asset base and utilization levels | ☐ | ☐ | ☐ | ☐ |
| | Cost model | Competitive cost model | ☐ | ☐ | ☐ | ☐ |
| | | Ability to leverage opportunities (such as sourcing) | ☐ | ☐ | ☐ | ☐ |
| | Organization | Structure supports strategy | ☐ | ☐ | ☐ | ☐ |
| | | Appropriate infrastructure (such as processes) | ☐ | ☐ | ☐ | ☐ |

**Source:** BCG analysis.

- Is our organization set up to promote experimentation and fast failure? Is it running enough experiments? Do we have a clear process to scale up promising, tested new opportunities?

- Is the organization ready to manage multiple business models to address different tiers of the market? Do we have the infrastructure to incubate new models, as well as modular global platforms to support business model innovation?

Depending on the answers to these questions, companies can start to reach countless businesses and the more than 1 billion consumers who make up the emerging middle and are eager for affordable products that solve their problems and fit in with their lives. That's an opportunity that could sustain at least another decade or two of profitable revenue growth.

NOTES

1. Goldman Sachs, "The N-11: More Than an Acronym," March 2007; http://www.goldmansachs.com/our-thinking/brics/brics-and-beyond-book-pdfs/brics-chap-11.pdf.
2. China estimates from BCG 2011 China income forecast model. India estimates from NCAER income distributions; Euromonitor; National Readership Survey 2005 and 2010.
3. *Winning in Emerging-Market Cities: A Guide to the World's Largest Growth Opportunity,* BCG report, September 2010.
4. *Winning in Emerging-Market Cities: A Guide to the World's Largest Growth Opportunity.*

5. *The 2011 BCG Global Challengers: Companies on the Move; Rising Stars from Rapidly Developing Economies Are Reshaping Global Industries*, BCG report, January 2011.
6. “India’s New Retailers,” *Outlook India*, July 11, 2009; http://business.outlookindia.com/article.aspx?240795.
7. David E. Bell and Mary Shelman, “Yum! China,” Harvard Business School Case Study, December 16, 2010.
8. *Identity Crisis: What Is the Corporate Center’s Role in a Globalized Business?* BCG Focus, December 2011.
9. “Yum! China.”

## About the Authors

**Zhenya Lindgardt** is a partner and managing director in the New York office of The Boston Consulting Group and is the firm's Business Model Innovation topic leader. You may contact her at lindgardt.zhenya@bcg.com.

**Christoph Nettesheim** is a senior partner and managing director in the firm's Beijing office. You may contact him by e-mail at nettesheim.christoph@bcg.com.

**Ted Chan** is a partner and managing director in the BCG's Hong Kong office. You may contact him by e-mail at chan.ted@bcg.com.

## Acknowledgments

This report was sponsored by BCG's Strategy and Global Advantage practices. The authors would like to thank Michael Deimler and David Michael for their contributions. They would also like to thank Benjamin Shaffer for brainstorming, initial writing, and guidance from draft to publication. They would also like to thank John Campbell for writing and editorial support, and Sarah Davis and Angela DiBattista for their editing and production assistance.

## For Further Contact

If you would like to discuss this report, please contact one of the authors.

To find the latest BCG content and register to receive e-alerts on this topic or others, please visit bcgperspectives.com.

Follow bcg.perspectives on Facebook and Twitter.


5/12 Rev. 8/12

BCG

THE BOSTON CONSULTING GROUP

Abu Dhabi
Amsterdam
Athens
Atlanta
Auckland
Bangkok
Barcelona
Beijing
Berlin
Boston
Brussels
Budapest
Buenos Aires
Canberra
Casablanca
Chennai
Chicago
Cologne
Copenhagen
Dallas
Detroit
Dubai
Düsseldorf
Frankfurt
Geneva
Hamburg
Helsinki
Hong Kong
Houston
Istanbul
Jakarta
Johannesburg
Kiev
Kuala Lumpur
Lisbon
London
Los Angeles
Madrid
Melbourne
Mexico City
Miami
Milan
Minneapolis
Monterrey
Moscow
Mumbai
Munich
Nagoya
New Delhi
New Jersey
New York
Oslo
Paris
Perth
Philadelphia
Prague
Rio de Janeiro
Rome
San Francisco
Santiago
São Paulo
Seoul
Shanghai
Singapore
Stockholm
Stuttgart
Sydney
Taipei
Tel Aviv
Tokyo
Toronto
Vienna
Warsaw
Washington
Zurich

bcg.com