

STRATEGY

## Remaining Competitive as a Local Business: Strategies from Emerging Markets During the Pandemic

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Image Credit | Tim Mossholder

*How can smaller merchants keep up with the pressures of globalization?*

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Though the COVID-19 pandemic has severely affected local companies in emerging markets, for some multinational companies it has been a boon. In India and some other emerging markets, small businesses form a major part of the economy. As more and more multinationals enter emerging markets, consumers find a variety of options to choose from - but local companies are often adversely affected by the entrance of these larger multinational competitors. For local companies, competing with multinationals is difficult, as they have better infrastructure for management. This effect has been amplified during the COVID-19 pandemic, making survival even more difficult for local businesses. When you stroll through the market, you will find that many local shops have closed down. The big giants have quickly adapted to the use of new technologies to sell their products, with many switching to online sales. Local shop vendors who are not as technology-savvy and still struggling to change their business model have found it much harder to adapt. India saw 10,113 companies shut down operations officially during the April 2020 - February 2021 period, Ministry of Corporate Affairs (MCA) data has revealed.<sup>1</sup>



Figure 1: Positioning for Emerging-Market Companies <sup>2</sup>

The chart explains how certain industries react to globalization pressures. They can be broadly classified into Defender, Extender, Dodger and Contender.

## DEFENDER

India's beauty and personal care market is estimated to amount to \$25.9 billion in 2020 and is projected to reach \$32.7 billion by 2023, growing at a CAGR of 8.1%. L'Oréal, Clinique, Dove including some of the luxury brands like Estée Lauder, Dior, Chanel are some of the popular cosmetic brands. Local brands find it difficult to compete with these well-established brands. But some local brands in India like Mama Earth, Khadi Natural, Kama Ayurveda are still holding to the niche market where consumer prefers to use natural and herbal products which use ayurvedic formulations.

### *Find your Niche and Establish a Dominant Position*

Ayurveda means "The Science of Life." Ayurvedic knowledge originated in India more than 5,000 years ago and is often called the "Mother of All Healing." These brands developed a highly effective Ayurveda inspired range of products, suitable for different hair and skin types. A growing movement away from chemical to natural and safer, has seen these companies tap into potential market which prefers ayurvedic products which are vegan and cruelty free. These brands also have been able to keep their pricing competitive with international brands.

How are these brands holding up during the pandemic? Mama Earth which started as a baby care product brand which emphasized on toxin free products; within 4 years had an operational revenue of \$2.3 million in year 2019. In 2020 when the pandemic hit, due to the lockdown the company's future was in gloom. But a ray of hope was seen when the baby care products and some other were included in essential commodities. By February 2021 the operating revenue had skyrocketed to \$ 67.6 million. The success can be contributed to 3 factors. It is a direct to customer brand hence the middle cost of distribution is saved.<sup>3</sup>

The brand quickly started selling products online after the lockdown was announced, it already had online presence before the lockdown. Its offline competitors were still struggling to put together an e-commerce strategy. During the lockdown as the offline stores were not available a sudden increase in demand came from Tier II cities.

During the lockdown they rolled out a wide range of skincare products based on Vitamin C and turmeric and they were an instant hit as lot of emphasis was put on sanitization and immunity boosting during the lockdown.

The brand associated itself with reality shows like 'Big Boss' helped them in marketing of the brand.

Kama Ayurveda which was founded in 2002 is valued at \$ 11 billion globally in 2018. During the pandemic the brand started sessions on ayurvedic rituals which can be practiced every day and building immunity with Ayurveda. During the pandemic online sales is up by 100 %. It can be inferred that the pandemic hasn't affected these brands adversely.

## **DODGER**

Pandemic has severely affected small scale local businesses like grocery stores, restaurants, local clothing shops, furniture shops etc. India has family-owned businesses with 111 companies and the total market capitalization of \$839 billion. It ranks third globally after China with 159 firms and the United States with 121 firms as per data available in 2018. 67% of listed companies are family business in India.

### ***Furniture Industry***

Indian furniture market was expected to be more than \$ 27 Billion by the end of the year 2023. This data was reported in year 2019. The Indian domestic furniture market is expected to expand at a CAGR of 12.91% during the period of 2020-2024. The growing trend of beautifying homes with innovative and stylish furniture is the major factor behind the growth of the furniture industry in India. Also increase in setting up of many new corporate offices increased demand for the office furniture. From the last decade many

organized players with latest designs and superior quality were entering the market like Home Center, Pepperfry, Urban Ladder etc. Recently entry of international player like Ikea started to give a tough competition to these local players.

### ***Strategies for fighting the Global Competition***

So how are the local players competing with international competition?

Currently in India, there are two segments of customers; one who buys furniture from local vendors or carpenters which is totally hand made. Many options are available for lower middle class to the affluent in this class. This segment has a loyal customer base and low pricing and also a good room for negotiation based on which it competes with the international as well as internal big players.

Another advantage is you can get the furniture custom made with choice of design, wood and fabric which is not available at furniture retailers who have standardized options. The supply chain is not very complex as the customers prefer to buy from shops which are near to where they stay.

The second segment which prefers online buying from Pepperfry, Urban Ladder, Godrej etc. These stores are preferred shopping choice for urban customer. Also stores having omnichannel presence such as Home Center provide superior quality furniture with unique designs. How these online furniture retailers are able to fight with international giants like Ikea? The success is because of the strategic choices they made.

They have provided customers choices which offer unique designs with good quality at different price range. They are aware of what locals prefer. The furniture is available in traditional Indian as well as western design and some with amalgamation of both styles. The traditional designs are artistically made with emphasis on intricate details. They continuously update the designs using data analytics for tracking the most popular ones and based on current market trend.

They have launched studios across the cities like Godrej Interio store, Studio Pepperfry where customers can experience the products before they buy it online.

Some of them like Pepperfry have their own logistic arm including first mile pickup and last-mile delivery of all the company's furniture.

### ***The Pandemic Effect***

How are they holding up during the pandemic? When the other industries were severely hit, work from home model have revived the growth of furniture market.

Pepperfry's online business has risen to 120 per cent of pre-lockdown levels. The sale increase is due to penetration of Pepperfry in Tier II and III cities. Its first-time buyers numbers grew at a faster rate than repeat buyers in Tier II cities. The new work from home model has suddenly increased demand for work from home furniture which consists of desks, chairs, comfortable seating, laptop table etc.

### ***Strategies for Survival of a Dodger fighting internal competition as well as the pandemic***

Most severely affected is segment one which only had offline presence. As they did not have any online presence to sell or even get orders for furniture, they had no choice to close down after some time. This is not the case only with furniture shops but also grocery stores, local artisans having small shops.

These companies need to drastically change their business model in order to survive and grow. As the shopping habits have changed during pandemic it is going to have a lasting impact post pandemic as well.

In order to take steps to solve this problem; we need to have a correct problem definition first. The timeframe 2000-2009 was a challenging time for record companies; who saw two thirds of their revenues evaporate. The music industry put its efforts in how to stop piracy but it could have been viewed as a strategic disruption of music distribution. The way apple defined this problem as "how can we make money in a world where technology is changing the distribution of music?". Apple launched the iPod in January 2001, followed by iTunes store in 2003, and it created a new business model for digital music distribution. Between 2006-2010 iPod generated annual revenues of around \$ 8 billion and laid the groundwork for the iPhone and its phenomenal success.<sup>4</sup>

Similarly for the problem in hand, we need to have a correct problem definition in place. Instead of focusing on how COVID is causing business losses and trying to get back to old ways of doing business; the problem definition should be how businesses should adapt to newly developed shopping habits of customers taking advantage of the technology? How businesses should take advantage of this discontinuity? How to position your brand in this transforming business world? How should your distribution channel adapt to lock downs and should evolve post COVID? Which new customers you can target by changing your business model?

### *Omnichannel Strategy*

The new business model should focus on developing a strategy for omnichannel presence. These shops can also generate new customers with the online platform.

### *Responding to Customer demand quickly and efficiently*

The supply chain will need a transformation as the orders will be placed not only from nearby places but from anywhere.

In today's world, a business which can deliver a product in the quickest possible way without compromising on quality and pricing will outperform its competitors. Quick Commerce, a next stage of E-Commerce where the success of service depends on speed of delivery, has witnessed a huge rise due to demand for doorstep delivery of essential goods.

Use of data analytics and customer feedbacks to gauge popular products and design is a big advantage.

## **EXTENDER**

A company which has been a success in home country can expand its business to analogous markets. One such company is Asus. ASUSTek Computer is a Taiwanese multinational focused on electronic products that range from Personal computers, Laptops, Mobile phones, TVs, Tablet, and other support products like motherboards and Smart watch. Asus holds around 3.9 % market share of mobile market in Taiwan ranked

4th after Apple, Samsung and Oppo. Asus is currently very influential in big markets like China, India and other Asian countries. Asus operates its service sites in around 32 countries.

What are the competitive advantages of Asus? Technology industry is very concentrated and highly competitive. One of the competitive advantages is low cost against competitors such as Acer, Dell and HP. But at a low-cost Asus provides high quality products.

Asus drives on product innovation. It releases new products yearly which are unique in design. Asus puts strong emphasis on Research and Development.

It has been providing after sale service. Asus Service Centers can be found in many places around the world making maintenance easier.

Asus has targeted segment for Gamers and they have been loyal customers along with others. In India itself with 32 % market share, Republic of Gamers emerges as top gaming laptop.

Pandemic has disrupted many businesses but as employees were forced to work from home; laptop sales increased substantially. The demand for desktops went down as employers started providing laptops to their employees. Asus has seen a 40 per cent jump in sales in Q1 2020 as compared to Q4 2019. The sale of Asus has doubled in gaming laptops which shows testimony to increased demand for gaming and entertainment products.

## **CONTENDER**

Air Asia is a Malaysian Airline having 61 % market share in Malaysia. Air Asia is well known as a lowest cost Air Carrier in the world with a cost/ASK (available seat kilometre) of 3.67 (US cents) as at 2018. It reported revenue of \$ 0.55 Billion in 1Q2020. Air Asia flies to 152 destinations in 22 countries.

The airline industry is highly competitive. How Air Asia has managed to be a low-cost Airline and take over its competition?



## ***Strategies to take its competitors head on and become a market leader***

Majority of the Airline profit is dependent on turnaround time. Air Asia has an advantage of optimizing loading and unloading time as it operates a single carrier Airbus A320 which is high capacity and fuel efficient. It is able to achieve a turnaround of 25 minutes which is fastest in the region.

Air Asia has point to point network. All short and long-haul flights of Air Asia are non-stop hence cutting the cost of human resources, physical infrastructure and facilities which are needed at transit location.

For India Operation, Air Asia initially planned to **hedge** 100% of its fuel requirements for the first three years. This is a very good strategy to optimize the operating cost.

Air Asia does not provide additional facilities such as frequent flyer miles or airport lounge facility as its already a low-cost airline. Thus, it cut costs in providing frills to passengers.

Air Asia has used technology in an innovative manner; a first Airline in Asia to go ticketless or embarking AirAsia 3.0 transformation journey into travel and financial platform.

## ***Fighting the Pandemic***

One of the industries affected worse than many industries is Air Line industry. There was less than half passenger traffic in year 2020 as compared to 2019. As per International Civil Aviation Organization (ICAO), this has added an astounding financial loss of \$ 370 billion to the Airline industry.

Air Asia identified this as an opportunity to speed up its digital transformation and ventured into non-passenger line of business identifying the need of an hour.

Air Asia's digital transformation exercise had started way before the pandemic when they had realized they have a large pool of data from airline passenger's booking system and their behaviour on how they use the web and mobile app. They had a foresight to make use of this data to open a digital arm, Air Asia Digital. This came as an advantage over their

competitors. By using the data to gain further insights into its customers, AirAsia has been able to create other relevant products and personalized offerings through Air Asia Digital and were able to extend its business beyond travel space.

During COVID Pandemic, the online ticketing platform- airasia.com- underwent a major transformation and expanded into offering various products and services. This transformed platform is named as ‘Super App’ which includes services such as food delivery, grocery delivery, online shopping in addition to flight tickets and hotel rooms. As of May 2021, The AirAsia Super App recorded a 45% year on year quarterly revenue improvement. <sup>5</sup>

For the airline’s e-commerce logistics venture – Teleport which now has over 5,000 delivery partners, the revenue has tripled versus the last quarter of 2020. It concentrates on last-mile deliveries, transporting parcels, restaurant orders, and fresh produce from AirAsia shop, AirAsia food, and AirAsia fresh.

Apart from its e-commerce arm, Air Asia also has a digital payment service called BigPay. It aims to be digital asset bank with e-money, remittance and lending facility.

## DESIGN THINKING

McKinsey Design Index (MDI), which ranks companies based on their strength in design skills, indicates that companies with high MDI showed 32 % higher revenue growth and 56 % higher total returns to shareholders (TRS) growth over a five-year period.<sup>6</sup>

Design thinking is a process which focuses on solving problems which are human centred and complex, poorly understood by solution developers. It consists five steps of Empathise, define, ideate, prototype and test.

Many leading companies apply design thinking principles in all their internal design operations. IKEA, through design thinking process came up with furniture which was easy for users to gather and transport.

Urban Company is an Indian business which provides a common platform right from home installation, maintenance, repair services to home beauty and wellness services. The mobile app for Urban Company is developed specifically focusing on user experience. The company clocked a significant year on year growth with operating revenue increasing to \$ 28.4 million in financial year 2019-2020, compared with \$ 14.5 million in financial year 2018-2019.

We can see that there is lot of potential for business growth if the end product is designed focusing on user experience. Especially for small businesses whose owners, digital transformation of such businesses considering the end user experience can go a long way towards achieving success.

As we can see some businesses survived, some roared and some lost their battle to the pandemic. The once who managed to survive and thrive, understood the current business demand and new opportunities. They were agile and quickly adopted to new ways of doing business. They welcomed the digital transformation and became part of the same. Some were lucky to have their businesses adopt to digital transformation way before the pandemic hit. Business owners need to understand that the pandemic might change the consumer behaviour permanently. The biggest asset is data and having insights of how to use the data for innovative product and services can be very useful. A business model needs to change in order to survive during the pandemic. As Stephen Hawking famously said, “Intelligence is the ability to adapt to change”. Businesses need to adapt to this change and evolve or they could become extinct.

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