

A Stepping-Stone Approach

To find out how companies should approach expansion into emerging markets—especially into the Czech Republic and other countries of Central and Eastern Europe—the Center for Digital Strategies held a discussion on “Conducting Business in Emerging Markets” last September in Prague. The event, part of the Thought Leadership Roundtable on Digital Strategies series, drew CIOs and senior executives from Cargill, Česká sporitelna, Cisco, DHL, Erste Bank, GM, Hasbro, Henkel, IBM, and Škoda Auto; academics from Tuck and Michigan; and partners from AT Kearney and Egon Zehnder.

One topic under discussion was using a stepping-stone approach to strategically enter markets. Participants discussed approaches that leveraged joint ventures, acquisitions, or market adjacencies to build up a presence in a region. Henkel’s Georg Novak, regional CIO Central Eastern Europe, discussed the strategy his company used in Eastern Europe to reduce market-entry risk, beginning with a joint venture in Hun-

gary and culminating in the company’s present 20-plant footprint. “We started thinking about Eastern Europe in 1984 and tried to start exporting consumer detergents and cosmetics,” says Novak, noting that Henkel leveraged joint-venture partners.

Professor Eric Johnson, director of the Center for Digital Strategies, pointed to a “change in consumer expectations” as a common turning point for emerging markets in Central and Eastern Europe and globally. He’d studied Papirius, a



Participants touring the Prague Castle

Czech office-supply startup, which grew from zero to \$50 million in revenue in five years by providing fast overnight delivery to small- and medium-sized businesses before being acquired recently by Office Depot. “It was fascinating how that resonated with the local market, as there was nothing previously providing that level of service,” he says. “They built up a nice little business around exploiting the changing expectations of the customers.”

Because emerging markets and regions aren’t homogeneous, it’s difficult to make generalizations about them, noted participants. “Some emerging markets aren’t Third World but may still have power and infrastructure issues,” said Cargill’s Rita Heise, corporate vice president and CIO. “So from a market standpoint they may be not emerging, but there are underdeveloped capabilities.”

Being good at understanding similarities and differences is a key success factor in entering emerging markets, she added. “Eastern Europe is a very good adjacent market to Western Europe, so we tend to rely on our Western Europe resources and insights to guide us there,” she said. “How do you understand the Eastern Europe uniqueness yet still piggyback off Western European success?”

Egon Zehnder Partner Erik Slingerland applauded the diversity of the emerging market approaches discussed during the day. “What I liked a lot was seeing that there’s no single best way to go about this,” he said. “There are different models, and each of them can be quite successful.”

Professor Johnson said he was struck by the opportunities to cross-pollinate lessons learned in emerging markets, even back into more developed markets. “It’s a very fruitful area to gather more intelligence.”



Roundtable participants Peter Hinzmann (Henkel), Rita Heise (Cargill), Erik Slingerland (Egon Zehnder), and Alex Pilar (DHL)

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