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# When Cheap Becomes Chic, the New Global Challengers Take the Lead

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**What are the implications for your business when cheap becomes chic in the developed world – and the companies ready to meet emerging customer and consumer demands are the new global challengers?**

One of our favorite consumer trend watching sites, [www.trendwatching.com](http://www.trendwatching.com), published a thought-provoking Trend Briefing in February 2010 called “FUNCTIONALL,” which highlights a range of examples of shifting consumer behaviors and product/service innovations both in rapidly developing economies (RDEs) and developed economies. They describe the trend as:

**“FUNCTIONALL” captures the phenomenon of simple, small and/or cheap products and services designed for low(er)-income consumers in emerging markets, with cross-over appeal to consumers in mature consumer societies. Goods and services especially designed for emerging markets often incorporate one or more of the following characteristics:**

- Smaller and/or limited number of features, to keep prices low.
- Simpler, or easier to use, for inexperienced consumers.
- Energy efficient (or not using any traditional energies at all) and/or easy to repair and/or waste-reducing.
- Robust, as some of them are used in rugged conditions.
- Well-designed (the democratization of design is a global phenomenon).
- Aimed at helping owners to generate income, or allow users to create self-sustaining systems.”

So why are these cheap products and services becoming increasingly attractive to consumers in more developed economies, as well as in RDEs? Trendwatching suggests: *Price*, reflecting a new consumer frugality born of the recent recession; *simplicity and convenience*, reflecting more transient and busy lifestyles, particularly in growing urban areas; *design*, with design in emerging economies catching up with that of developed economies; and *sustainability*, appealing to eco-conscious consumers.

It’s not a one-off phenomenon. The many examples highlighted in the briefing demonstrate that *cheap is becoming chic* across multiple industries, from computing and gaming to finance to food and beverage to automotive to domestic appliances to transport. Think computers for less than US\$100, microfinance in the United States, low cost mass market cars for Europe, low cost domestic appliances, solar-powered lights, and water purifiers to tackle polluted water and remove the need for bottled water. Consider the £5,000 Dacia Logan (Dacia is a subsidiary of Renault), manufactured for the Romanian market which became a hit in France, Germany and the UK – with simplicity of engineering the key to keeping both purchase and servicing costs down, attracting a new segment of buyers. Or take Godrej Industries in India, whose primary business is chemicals and edible oils, which has recently announced the world’s cheapest refrigerator and is on BusinessWeek’s April

2009 list of the world's unsung innovative companies. Companies that are not yet innovating – radically – to respond to these trends face an uphill struggle.

Some of the companies at the forefront of developing the innovations described in the FUNCTIONALL Trend Briefing, are forward-thinking companies originating in developed economies but with strong global presence. Other major companies include the Tata Group, Bajaj Auto (partnership with Renault-Nissan), and Mahindra and Mahindra which can be found amongst the ranks of the **“The 2009 BCG 100 New Global Challengers,”** identified in the Boston Consulting Group's report of this name in January 2009, while the rest of the examples focus on smaller or start-up enterprises, some of which could well make BCG's list of new global challengers in future.

The BCG list covers a diverse set of industries, business models and countries, which nonetheless exhibit a number of common characteristics that have played a key role in the development of these companies into contenders for global leadership in the market spaces in which they compete. These characteristics include:

- **Favorable starting positions in RDEs:** Early, privileged access to high growth markets, natural resources and low-cost talent pools, and freedom from the legacies of high-cost assets and premium price-focused business models often facing their developed world competitors, provide the global challengers with a strong home base from which to expand globally, plus innovative business models that focus on low price at “good enough” quality while addressing resource issues.
- **The ambition to go for global leadership:** The ambition, vision and willingness to tolerate substantial risks among the owners and founders of the global challengers provides the motivation for overseas expansion; the risk tolerance is reinforced by the fact that three-quarters of the global challengers are privately held or controlled by a limited number of shareholders (including states) so have agendas that extend beyond shareholder returns, while offering an effective defense against hostile takeovers.
- **A willingness to reach outside for rapid growth:** Few global challengers go it alone. The ability to leverage international resources and expertise is a critical success factor, with many challengers partnering to build world-class capabilities, using acquisitions to rapidly develop global leadership positions (in some cases in collaboration with private equity firms and international advisors), and working hard to globalize their management teams by tapping into talent outside their home markets.

So what's the connection between FUNCTIONALL and new global challengers? Together they demonstrate the expanding **fight for value creation and capture**, one of the overarching areas of competition highlighted in The Global Trends Report 2010. The growth of the FUNCTIONALL phenomenon provides fertile ground in developed markets for the new global challengers to expand and to grow, leveraging their “cheap and chic” business models, which many have demonstrated to be extremely flexible in entering new markets. And they have been growing successfully and profitably – BCG's analysis suggests the 100 global challengers have grown revenues faster (29% per annum from 2005 to 2007 versus 5% p.a. for the S&P 500) and earned higher profits (17% average operating margin in 2007 versus 14% for the S&P500) than their multinational peers in developed markets.

While the recession and squeeze on funding may hamper the expansion of the new global challengers in the near-term, FUNCTIONALL is a long-term trend which will see radical innovations in products, services, sustainable practices, and business models, many of which have originated in RDEs, being rapidly transferred to enthusiastic customers and consumers in the developed world.

The question for you and your organization is are you ready? Ask yourselves:

- How is the trend towards FUNCTIONALL going to impact the market spaces in which we compete, e.g. in terms of price points, quality or features? What are the implications for my organization and business model and how we create and capture value?
- Who will be the new competitors emerging to take advantage of the FUNCTIONALL trend, e.g. new global challengers, innovative developed world multinationals or new and nimble start-ups? What will be their strengths and weaknesses?
- How do we need to rethink our approach to innovation to be able to take advantage of this trend and counter the threats? Who should we partner with to help us?
- What do we need to do in our business system to be able to compete effectively and successfully with the emerging players in the FUNCTIONALL space in our industry?

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### ***Suggested Reading***

**“FUNCTIONALL, Why simple, small and cheap appeals to all,”** Trend Briefing February 2010, <http://trendwatching.com/trends/functionall/>

**“The 2009 BCG 100 New Global Challengers, How Companies from Rapidly Developing Economies Are Contending for Global Leadership,”** by Marcos Aguiar, Cameron Bailey, Arindam Bhattacharya, Thomas Bradtke, Jesus de Juan, Jim Hemerling, Kim Wee Koh, David C. Michael, Harold L. Sirkin, Carl Stern, Andrew Tratz, Kevin Waddell, Bernd Waltermann, January 2009, <http://www.bcg.com/documents/file20519.pdf>

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