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Market Position as a Source of Competitive Advantage in Future Industry 6.0

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Abstract

Historically, companies have struggled to understand the voids that characterise growth markets, such as a less stable political environment, complex business culture, and limited financing and availability of skilled labour, among others. They have often taken mature infrastructure foundations in developed markets for granted and are therefore caught off guard when they find these lagging in developing economies. In addition, companies also fail to distinguish between the nuanced differences in institutional voids between growth markets. China, for example, is characterised by issues such as limited availability of local managerial talent and a relatively underdeveloped capital markets system, while the Brazilian landscape faces supply chain bottlenecks, the influence of trade unions, and complex bureaucratic systems. On the other hand, companies looking to operate in the Russian market need to be aware of intellectual property risks and the need to establish local subsidiaries to raise capital. Companies have also been caught off guard by the rapid pace of evolution that characterises growth markets, creating new uncertainties in business conditions. Therefore, factors such as unpredictable regulatory and legal systems, nimble and innovative local competition and evolving tastes and quality expectations of the consumer, need careful consideration from multinationals looking to expand into these regions. On the other hand, many of the players operating locally in growth markets today are also looking to become the new-age multinationals of tomorrow, by expanding to new shores. These companies would need to understand the relevance and applicability of their home advantages beyond domestic borders, while repositioning themselves to tackle challenges such as limited brand awareness or supply chain gaps in new regions.

Research Objective: *The research investigates on how domestic companies could make use of the relevance and applicability of their home advantages beyond domestic borders, while repositioning themselves to tackle challenges such as limited brand awareness or supply chain gaps in new regions.*

Keywords

Competitive advantage, Industry 6.0, strategic positioning

Introduction

Porter (1996) stated that "… strategic positioning means performing *different* activities from rivals or performing similar activities in *different ways*." (p. 62), since that enables to produce a unique mix of value (Magrette, 2012). Porter (1985, p. 11) emphasized the importance of positioning and choices that enable a company to cope with the five forces (see 2.2.2 Strategic Analysis) better than its competitors. At the same time, he argued that a company's competitive advantage could arise on two options, low costs or differentiation. Porter (1985, pp. xv-xx) included the value chain concept in competitive advantage theory, which highlighted the thinking of a company's activities as strategically essential factors in cost generation and differentiation. These activities connect the firm's internal resources and capabilities and its external market position. Porter (1991) explained that this bundle of activities connects a company's internal strengths and weaknesses to respond to external opportunities and threats. Strategic choices, like what activities a company performs and how it assembles and integrates those, create a competitive advantage. Value chain thinking has the advantage of systematically analysing a firm's operational activities (Lin et al., 2013). Porter (1985, pp. 38-39) divided activities into primary and supportive activities. Primary activities cover the production of a physical product, its sale and de-livery to customers, and after sales functions. Supportive activities enable the implementation of primary activities. The generic name for these activities is value activities, which are firm-specific activities, therefore building blocks of competitive advantage. The margin represents the economic value of the firm's activities. Porter (1996) wrote that a company's competitive advantage and sustainability arise from the fit between its different activities, reinforcing each other. The compatibility of activities creates a complex chain for competitors to imitate and creates a sustain-able competitive advantage. According to Porter (1996), the cost advantage results in performing activities more efficiently than competitors, and the advantage of differentiation arises from the activity choices made and the unique performance of the activities. Operational effectiveness, meaning performing functions better than others, impacts both firm's cost position and ability to differentiate, but operational effectiveness is not a strategy (Porter, 1996). It is essential to make choices, trade-offs and decide what to do and what not to do since this makes the company unique (Magretta, 2012). Porter (1985, p. 12) stated that offering everything to everyone usually leads to mediocrity and lower re-turns and reveals that the company has no competitive advantage. Market positioning and per-forming better than average in the specific industry leads to *three generic strategies*: cost leader-ship, differentiation, and focus. When the firm decides to obtain a cost leadership strategy, it sets the goal of producing

products at the lowest possible cost in the industry, which typically means mass production, economies of scale, standard products, and finding all possible sources of cost advantage activities (Porter, 1985, pp. 12-14). Cost leadership means that the company aims to serve many customers but satisfy only a few of their needs (Porter, 1996). Differentiation arises from a company's choices to be a unique player in the industry in some dimension that generates extensive customer value (Porter, 1985, pp. 12-14). The company strives to meet customers' unique needs with high quality, brand, and performance and receives a premium price in return (Stonehouse & Snowdon, 2007). So, the company serves a few customers but satisfies a wide range of their needs (Porter, 1996). Porter (1985, pp. 12-14) pointed out that differentiation can arise anywhere in the value chain. Focus strategy concentrates on serving a narrow market segment by tailoring its value chain to meet the needs of this group. The company can choose the cost focus by finding the cost advantage in the target segment or the differentiation focus by finding differentiation in the target segment (Porter, 1985, p. 15). The company can serve many customers and satisfies a wide range of needs in a niche market (Portrer, 1996). According to Magretta (2012), integrated cost leadership, differentiation, and focus strategies are possible. When the company has chosen the customers and needs its aims to serve, it can tailor its value chain. This enables the company to be differentiated, low-cost and focused at the same time. However, Porter (1985, pp. 16-17) emphasized the need to choose and pursue one of the generic strategies. A company that tries to pursue all generic strategies and fails is usually below average in performance and does not have a competitive advantage. The concept of generic strategies has received a lot of criticism for its strict view that the company should aim for only one of the generic strategies. The studies suggest that cost leadership and differentiation could be combined (Stonehouse & Snowdon, 2007). Porter (1985, p. 18) challenged this view by claiming that differentiation is usually costly and cannot be connected to cost leader-ship. Researchers interpreted that the generic strategies take too little account of the company's internal resources, competencies, and capabilities, which they see as a source of competitive ad-vantage (Long & Vickers-Koch, 1995; Prahalad & Hamel, 1990; Barney, 1991). According to Barney (1991), this kind of environmental model only indicates a firm's resources to seize opportunities or minimize threats. To create a sustainable competitive advantage company needs to add features to these resources (Barney, 1991). Barney (1991) also argues that this model does not notice the diversity of firms and their resources within an industry. From the point of view of dynamic capabilities, Teece et al. (1997) highlighted that the only way to gain diversification is to build and extend existing capabilities; products should not be the focus of attention but of different competencies and capabilities. The dynamic capability perspective notices the company's assets with which the company aims to achieve competitive advantage and how those assets are utilized and re-utilized in a changing environment (Teece et al., 1997). On the other hand, Stonehouse and Snowdon (2007) claimed that resource and capability-based theory had been seen to be too inward-looking at the expense of customer attention and provide only a few practical tools for bundling resources and competencies to create a competitive advantage. However, the resource-based theory provides an essential complement to strategy

development and the definition of competitive advantage (Stonehouse & Snowdon, 2007). Stonehouse and Pemberton (1999) pointed out that resources provide the ingredients for activities and the competencies and capabilities provide the knowledge to perform the activities. The research investigates on how domestic companies could make use of the relevance and applicability of their home advantages beyond domestic borders, while repositioning themselves to tackle challenges such as limited brand awareness or supply chain gaps in new regions.

2. Literature review Industry 6.0

Industry is defined as the production of goods and services through the transformation of raw materials and resources into valuable products. It involves the creation of finished products or services through various stages of production that may include manufacturing, processing, assembly, packaging, and distribution. Industries have played a significant role in the economic growth and development of nations throughout history. They have contributed to the creation of employment opportunities, the development of new technologies, and the improvement of living standards. Over the years, the industrial sector has gone through numerous changes, and each of these changes has been termed as an "Industry Revolution."

Industry 1.0: The Birth of the Industrial Revolution

Industry 1.0, also known as the first industrial revolution, began during the late 18th century and lasted until the mid-19th century. It was characterized by the widespread use of mechanized production, the utilization of energy sources such as coal and steam-power, and the emergence of the first factories. This revolution allowed for mass production to become possible and saw the emergence of the first industrial giants such as the cotton mills and ironworks.

Industry 2.0: The Era of Mass Production

Industry 2.0 was marked by the introduction of electricity and the invention of new technologies such as the assembly line. This revolution led to increased productivity, efficiency, and quality in the production of goods, as well as the emergence of new industries such as the automobile industry.

Industry 3.0: The Rise of Automation

Industry 3.0, also known as the digital revolution, saw the use of electronic technologies to create computer-based systems, robotic production lines, and automated factories. This revolution allowed for the emergence of the internet, as well as the development of new technologies such as 3D printing, big data, and cloud computing.

Industry 4.0: Automation and Digitization

Industry 4.0, also known as the fourth industrial revolution, began in the early 21st century and is characterized using automation and data exchange. This revolution has allowed for the development of the internet of things (IoT), artificial intelligence, and machine learning. It has also enabled the use of 3D printing, big data, and cloud computing.

The growth of Industry 4.0 is driven by several factors, including the need to increase productivity and efficiency, the emergence of new technologies such as artificial intelligence and machine learning, and the increasing use of the internet of things (IoT). The use of automation and data exchange allows for faster and more accurate data processing, as well as increased efficiency in the production of goods. Additionally, the development of new technologies such as artificial intelligence and machine learning allow for more efficient decision-making and problem-solving capabilities. Finally, the use of the internet of things (IoT) allows for improved communication and data-sharing between connected devices.

The Evolution of Industry 5.0: Humans and Machines Working Together

Industry 5.0, also known as the Human-Tech partnership, aims to bring together the benefits of Industry 4.0 with the human touch. It emphasizes the importance of human creativity, innovation, and problem-solving skills, while also utilizing advanced technologies such as AI, robotics, and IoT. Industry 5.0 aims to create a work environment where machines and humans work in collaboration, with machines performing repetitive and dangerous tasks while humans focus on more complex and creative work. This approach is expected to lead to increased efficiency, productivity, and job satisfaction, while also promoting social responsibility and sustainability.

The need for Industry 5.0 is driven by the need to remain competitive in the global market, as well as the increasing demand for increased efficiency, productivity and quality. Additionally, the use of advanced technologies such as cognitive computing, artificial intelligence and machine learning allow for improved decision-making and problem-solving capabilities, as well as the potential for new business models.

Unique characteristics of Industry 5.0:

Collaboration : Industry 5.0 emphasizes the importance of collaboration between humans and machines. This means that humans and machines will work together to achieve common goals, with each one complementing the other's strengths and weaknesses.

Customization : Industry 5.0 is characterized by the customization of products and services. This means that products will be designed and produced based on the specific needs and requirements of individual customers.

Sustainability : Industry 5.0 places a strong emphasis on sustainability. This means that manufacturing processes will be designed to reduce waste and minimize the impact on the environment.

Decentralization : Industry 5.0 emphasizes decentralization, with a focus on distributed production and manufacturing. This means that production will be closer to the point of consumption, reducing the need for transportation and logistics.

Flexibility : Industry 5.0 emphasizes flexibility, with the ability to quickly adapt to changing market conditions and customer needs. This means that manufacturing processes will be designed to be easily reconfigured and adapted to meet changing demands.

Industry 5.0 is a revolutionary advancement in the industrial sector, with the potential to drastically improve productivity, efficiency, and quality across various industries. This revolution is characterized by using advanced technologies such as artificial intelligence, machine learning, and the internet of things (IoT). The prospects of Industry 5.0 are promising, as the use of advanced technologies and automation will continue to improve productivity and efficiency across various industries. Additionally, the development of new technologies such as blockchain, quantum computing, and advanced robotics will allow for the potential for new business models and the development of new products. Overall, Industry 5.0 is focused on creating a more sustainable, collaborative, and customer-centric manufacturing environment that leverages the strengths of both humans and machines.

Industry 6.0: Advancements and Challenges

Industry 6.0(Future Concept), also known as the sixth industrial revolution, is characterized by using advanced technologies such as quantum computing, and nanotechnology over the pre-built Industry 5.0 architecture. These technologies will enable more efficient and effective solutions to solve complex problems, as well as the potential for new business models.

The use of Industry 6.0 technologies will also provide the potential for advanced robotics, and increased safety and security in production and manufacturing processes. Additionally, the use of blockchain technology will enable secure and reliable data-sharing and communication between connected devices, as well as the potential for new economic models. Ultimately, the use of Industry 6.0 will continue to revolutionize the way we produce, manage, and consume goods, services, and information but as with any technological advancement, Industry 6.0 may also have some potential drawbacks or negative impacts.

Addressing the Drawbacks of Industry 6.0: Strategies and Solutions

The advent of Industry 6.0 presents a multitude of challenges that require substantial investment in the development of technological, social, and economic infrastructures to ensure their smooth integration into society. The development of new technologies and automation is likely to have a profound impact on employment, with many jobs being rendered obsolete or transformed. This may exacerbate existing inequalities in society and result in job displacement for many people, particularly those with lower levels of education or training. Additionally, the widespread adoption of Industry 6.0 technologies may also result in increased environmental degradation, resource depletion, and pollution, which could have serious consequences for future generations. To address these challenges, policymakers must take a proactive approach to ensure that Industry 6.0 is implemented in a socially and environmentally responsible manner. This may involve the implementation of new regulations and policies aimed at mitigating the negative impacts of automation and ensuring that the benefits of technological progress are shared equitably across society.

Potential directions for Industry 6.0 could involve advancements in areas such as:

1. *Biotechnology Integration:* Further integration of biotechnology into industrial processes, including bioengineering, biomanufacturing, and bioinformatics.

2. *Sustainable and Circular Economy Practices*: Greater emphasis on sustainable manufacturing practices, resource efficiency, and circular economy models to minimize waste and environmental impact.

3. *Quantum Computing and Quantum Technologies:* Utilization of quantum computing and other quantum technologies to solve complex optimization problems, enhance data security, and revolutionize computation capabilities.

4. *Advanced Robotics and Autonomous Systems:* Development of more sophisticated robotics and autonomous systems capable of handling complex tasks in diverse industrial settings.

5. *Augmented Reality (AR) and Virtual Reality (VR):* Expanded use of AR and VR technologies for training, maintenance, design, and collaboration in industrial settings.

6. *Advanced Materials and Nanotechnology:* Continued development of advanced materials and nanotechnology for applications in manufacturing, energy, healthcare, and other industries.

7. *Decentralized Manufacturing and 3D Printing:* Increased adoption of decentralized manufacturing models enabled by advancements in additive manufacturing (3D printing) and distributed production networks.

8. *Cyber-Physical Systems and Digital Twins:* Integration of cyber-physical systems and the widespread adoption of digital twin technologies for real-time monitoring, optimization, and predictive maintenance.

In summary, Industry 6.0 is a futuristic industry that transcends previous revolutions, emphasizing sustainability, intelligence, and holistic integration. Its impact will be profound, shaping the way we work, interact, and live in the coming decades.

3. Market Position as a Source of Competitive Advantage

Porter (1996) stated that "… strategic positioning means performing *different* activities from rivals or performing similar activities in *different ways*." (p. 62), since that enables to produce a unique mix of value (Magrette, 2012). Porter (1985, p. 11) emphasized the importance of positioning and choices that enable a company to cope with the five forces (see 2.2.2 Strategic Analysis) better than its competitors. At the same time, he argued that a company's competitive advantage could arise on two options, low costs or differentiation. Porter (1985, pp. xv-xx) included the value chain concept in competitive advantage theory, which highlighted the thinking of a company's activities as strategically essential factors in cost generation and differentiation. These activities connect the firm's internal resources and capabilities and its external market position. Porter (1991) explained that this bundle of activities connects a company's internal strengths and weaknesses to respond to external opportunities and threats. Strategic choices, like what activities a company performs and how it assembles and integrates those, create a competitive advantage. Value chain thinking has the advantage of systematically analysing a firm's operational activities (Lin et al., 2013). Porter (1985, pp. 38-39) divided activities into primary and supportive activities, as shown in Figure 6. Primary activities cover the production of

a physical product, its sale and de-livery to customers, and after sales functions. Supportive activities enable the implementation of primary activities. The generic name for these activities is value activities, which are firm-specific activities, therefore building blocks of competitive advantage. The margin represents the economic value of the firm's activities. Porter (1996) wrote that a company's competitive advantage and sustainability arise from the fit between its different activities, reinforcing each other. The compatibility of activities creates a complex chain for competitors to imitate and creates a sustain-able competitive advantage. According to Porter (1996), the cost advantage results in performing activities more efficiently than competitors, and the advantage of differentiation arises from the activity choices made and the unique performance of the activities. Operational effectiveness, meaning performing functions better than others, impacts both firm's cost position and ability to differentiate, but operational effectiveness is not a strategy (Porter, 1996). It is essential to make choices, trade-offs and decide what to do and what not to do since this makes the company unique (Magretta, 2012). Porter (1985, p. 12) stated that offering everything to everyone usually leads to mediocrity and lower re-turns and reveals that the company has no competitive advantage. Market positioning and per-forming better than average in the specific industry leads to *three generic strategies*: cost leader-ship, differentiation, and focus. When the firm decides to obtain a cost leadership strategy, it sets the goal of producing products at the lowest possible cost in the industry, which typically means mass production, economies of scale, standard products, and finding all possible sources of cost advantage activities (Porter, 1985, pp. 12-14). Cost leadership means that the company aims to serve many customers but satisfy only a few of their needs (Porter, 1996). Differentiation arises from a company's choices to be a unique player in the industry in some dimension that generates extensive customer value (Porter, 1985, pp. 12-14). The company strives to meet customers' unique needs with high quality, brand, and performance and receives a premium price in return (Stonehouse & Snowdon, 2007). So, the company serves a few customers but satisfies a wide range of their needs (Porter, 1996). Porter (1985, pp. 12-14) pointed out that differentiation can arise anywhere in the value chain. Focus strategy concentrates on serving a narrow market segment by tailoring its value chain to meet the needs of this group. The company can choose the cost focus by finding the cost advantage in the target segment or the differentiation focus by finding differentiation in the target segment (Porter, 1985, p. 15). The company can serve many customers and satisfies a wide range of needs in a niche market (Portrer, 1996). According to Magretta (2012), integrated cost leadership, differentiation, and focus strategies are possible. When the company has chosen the customers and needs its aims to serve, it can tailor its value chain. This enables the company to be differentiated, low-cost and focused at the same time. However, Porter (1985, pp. 16-17) emphasized the need to choose and pursue one of the generic strategies. A company that tries to pursue all generic strategies and fails is usually below average in performance and does not have a competitive advantage. The concept of generic strategies has received a lot of criticism for its strict view that the company should aim for only one of the generic strategies. The studies suggest that cost leadership and differentiation could be combined (Stonehouse & Snowdon,

2007). Porter (1985, p. 18) challenged this view by claiming that differentiation is usually costly and cannot be connected to cost leader-ship. Researchers interpreted that the generic strategies take too little account of the company's internal resources, competencies, and capabilities, which they see as a source of competitive ad-vantage (Long & Vickers-Koch, 1995; Prahalad & Hamel, 1990; Barney, 1991). According to Barney (1991), this kind of environmental model only indicates a firm's resources to seize opportunities or minimize threats. To create a sustainable competitive advantage company needs to add features to these resources (Barney, 1991). Barney (1991) also argues that this model does not notice the diversity of firms and their resources within an industry. From the point of view of dynamic capabilities, Teece et al. (1997) highlighted that the only way to gain diversification is to build and extend existing capabilities; products should not be the focus of attention but of different competencies and capabilities. The dynamic capability perspective no-tices the company's assets with which the company aims to achieve competitive advantage and how those assets are utilized and re-utilized in a changing environment (Teece et al., 1997). On the other hand, Stonehouse and Snowdon (2007) claimed that resource and capability-based theory had been seen to be too inward-looking at the expense of customer attention and provide only a few practical tools for bundling resources and competencies to create a competitive advantage. However, the resource-based theory provides an essential complement to strategy development and the definition of competitive advantage (Stonehouse & Snowdon, 2007). Stonehouse and Pemberton (1999) pointed out that resources provide the ingredients for activities and the competencies and capabilities provide the knowledge to perform the activities.

4. Resource-Based view as a Sources Competitive Advantage

The resource-based view (RBV) emerged as an alternative to Porter's five forces and general strategies models. It approaches the strategy from the inside out, emphasizing the company's internal strengths and then choosing how to make the most of them (Barney, 2021). However, the roots of the RBV are in history. Ricardo (1817) described the ability of inelastic resources to create profitability by analysing the profitability of farms and their ability to create abnormal profits in a situation where the supply of fertile land had been fixed (Makadok, 2001). Approaching today's under-standing of the resource-based view, one of the first articles was Wernerfelt (1984), which highlighted the importance of internal company resources to firm performance. However, Barney (1991) raised the resource-based view more broadly as a source of sustainable competitive ad-vantage and a determinant of firm competitiveness. Barney (1991) claimed that a firm's resources need to be valuable (**V**), rare (**R**), inimitable (**I**), and non-substitutable (**N**) to be able to create a sustainable competitive advantage. Only intangible resources possess these VRIN features since those cannot be easily bought or copied by competitors. However, studies emphasize thinking about the resources more broadly, and the criticality of tangible resources in creating a competitive advantage should get more attention, as intangible resources alone are seldom able to create a competitive advantage (Sirmon et al., 2011; Kamasak, 2017). On the other

hand, Kamasak (2017) found that intangible resources have a more significant influence on firm performance than tangible resources. Barney (1991) stated that valuable resources seize opportunities and eliminate threats in the com-pany's environment. Resources are rare if only a few firms in an industry own these valuable re-sources (Barney, 1991). The factors which make resources inimitable are historical uniqueness, causal ambiguity, and social complexity. *Historical uniqueness* stems from a specific historical event, such as the emergence of a unique and valuable corporate culture or a successful location in history. According to Barney (1999), history can also affect resources inimitable in other ways, such as when an organization has to go through a long and challenging learning process to get the resource it wants. When there is no shortcut to obtaining such a resource, the situation is called *path-dependent.* The second factor that Barney (1991) claimed affects the resources inimitable is the *Causal ambiguity* which describes a situation where the relationship between a company's resources and its competitive advantage is unclear. *Social complexity* describes a situation where a company's resources result from a socially complex phenomenon. Such factors include the company's reputation or organizational culture that affect the company's success but what competitors find difficult to copy. It is not easy to copy a competitive advantage, which formation is not fully understood.

According to Barney (2001), RBV includes the assumption that resources and capabilities are het-erogeneously distributed across the industry. As a result, companies become differentiated and maintain these differences and a stronger competitive position for a long time. Barney (1991) as-sumes that these heterogeneous resources are at least partially immobile, which explains the per-sistence of heterogeneity. Together, these characteristics, heterogeneity, and immobility create the conditions for a sustainable competitive advantage (Barney, 1991). However, Sirmon et al. (2010) pointed out that RBV concentrates only effects of a firm's strengths to competitive ad-vantage and does not recognize the effect of firm weaknesses. They claim that this has limited the understanding of competitive advantage. Exploring strengths and weaknesses simultaneously provides a more accurate picture of a company's outcomes and better profitability. The RBV perspective focuses on creating strategies by leveraging existing company-specific resources and focusing on the company's internal functions (Teece et al., 1997). RBV does not explain creating future valuable resources or regenerating existing valuable, rare, inimitable, and non-substitutable resources in a changing environment (Ambrosini & Bowman, 2009). These things make the theory static in nature. The theory does not explain how a sustainable competitive advantage is maintained (Teece et al., 1997) or how resources create value (Sirmon et at., 2007). Eisenhardt and Martin (2000) propose that dynamic capabilities contribute to the competitive advantage by reorganizing the resource base since those can create, integrate, reassemble and release resources, but the dynamic capabilities are not competitive advantages. Capron and Mitchell (2009) stressed that the capability-based view would supplement the resource-based view by understanding the nature of dynamic capabilities as attributes to change a firm's existing resources and affect the firm's long-term survival in a dynamic marketplace. Sirmon et at., (2007) recognized the importance of

managers in resource management and integrating this process into a company's changing competitive environment. They saw resources management as a three-step process: *structuring* the resource portfolio, *bundling* resources to form capabilities, and finally *leveraging* capabilities to offer customer value. However, a sustainable competitive advantage is not achieved by owning valuable, rare, inimitable, and non-substitutable resources. Instead, the company must be able to exploit those full potentials (Newbert, 2007). Ray et al. (2004) presented possibility to compound two theories of the sources of a firm's competitive advantage, the activities-based view and resource and the capabilities-based view. The first one proposes the firm success because of what it does and the latter because of what it is. Ray et al. (2004) recognized that only connecting resources and capabilities in a firm's business process and activities enables introducing those to the markets, recognizing their value, and realizing their full potential to create a competitive advantage. Thinking the other way round, the resources and capabilities that a firm possesses can limit a firm's ability to choose activities and business processes it aims to accomplish, and this causes the differential effectiveness of these processes (Ray et al., 2004).

Building the capability foundations

Private players looking at exploring growth opportunities in developing markets would need to develop a firm understanding of the market and operational landscape in the region. Accordingly, they may need to modify existing business models and organisation structures to gain sustainable competitive advantage over incumbents. This would in turn require a new 'coherent' system of capabilities – a system that is aligned to the company's growth ambition and the value proposition that it seeks to deliver, as well as the core strengths that define its existing DNA. These capabilities could be defined as an interconnection of people, knowledge, processes and systems that would allow companies to consistently and sustainably outmanoeuvre the competition. In our opinion, companies successful in growth markets tend to build strong capabilities across three foundations, impacting both their 'ways to play' and their 'right to win' in a particular market. These foundations include operational efficiency, product and process innovation, and go-to-market excellence, as highlighted in figure 1.

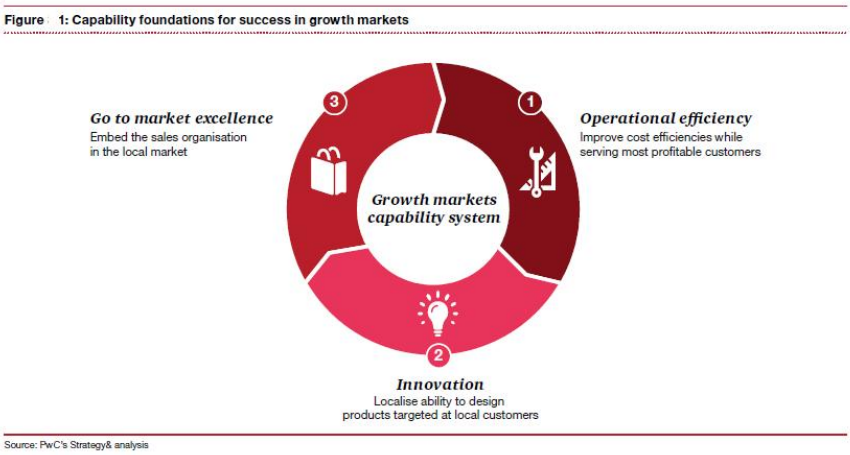

Figure 1. Capability Foundation: Operational Efficiency

As a first step, companies would need to look inwards and strengthen their core business capabilities by improving productivity and efficiency in their existing production and supply chains, within their growth markets' operations. Differentiating controllable internal costs such as wages, suppliers or materials from external costs such as regulatory compliance and interest rates, and benchmarking these internal costs with respect to best in class performers will be essential to understanding cost drivers and the levers of change required to enhance operational efficiency. These cost drivers and their potential levers of change could vary across the spectrum. For example, enhancing automation of manual processes could be a lever of change to manage costs driven by the need to match competitor performance. Similarly, companies could focus on achieving higher economies of scale or on improving capacity utilisation to tackle the higher cost of sales accompanying market growth, or they could improve supplier sourcing in the case of cost pressures imposed by changes in consumer needs. Operations in growth markets have often been fuelled by supply of low cost labour, especially for low and medium technology manufacturing. However, with economic growth, labour has become more skilled and more expensive. To counter these changing dynamics, companies would need to focus more on improving productivity levels than on making drastic cuts in payrolls that could negatively impact employee morale and customer service levels. Low worker productivity remains a particular challenge in many Latin American markets, all the more so amidst the weaker economic conditions experienced by the region in recent years. For example, GDP per capita in Latin America, a proxy for labour productivity, has fallen from being about a quarter of the US's in the 1960s to almost a sixth in 2015, while Asian markets have made strong advances in productivity levels during these years. (Economist Intelligence Unit, 2015) Though structural reforms in the economy will be essential to countering this challenge, companies targeting growth in Latin America will have to focus more on enabling process improvements through technology adoption or by creating stronger incentive structures to drive employee efficiency. Companies could also realise improvements in operational efficiency by optimising their manufacturing footprint. As highlighted under sector trends on manufacturing , companies need to take into account changing cost dynamics impacting leading markets such as China, along with infrastructure developments and new regulatory incentives being offered by emerging manufacturing centres such as India, Thailand or Vietnam, to re-evaluate their location strategies. Moreover, as well as the nuances that impact domestic business conditions, companies also need to be aware of rapidly evolving trade linkages and market integration efforts such as the ASEAN Economic Community in Asia or the Pacific Alliance in Latin America, which will have a major influence on strategic decisions around addressable markets and operational presence in the coming years. Establishing local production presence in a majority of target markets may no longer be a pre-requisite to operational efficiency or market success, with new policy arrangements between nations opening doors to free movement of goods and services, labour and capital. On the other hand, certain products may need to move closer to the customer to gain competitive advantages by being more responsive to changing customer demands, or by enabling a shorter time to delivery. Companies could further realise

cost savings on the supply chain side, by working with their upstream suppliers to incorporate global best practices. Highlighted below in figure 2 is a sample supplier management framework that could be deployed to identify near-term and long-term cost-saving opportunities in this regard. Finally, each decision to improve operational efficiency – through productivity improvement in the short term, to footprint optimisation in the medium term and supplier improvement in the longer term – would need to be calibrated against key organisational capabilities, including creating an optimal organisational structure, hiring the right people, developing new human capital skills and setting appropriate processes and tools, for the efficiency impact to be truly realised.

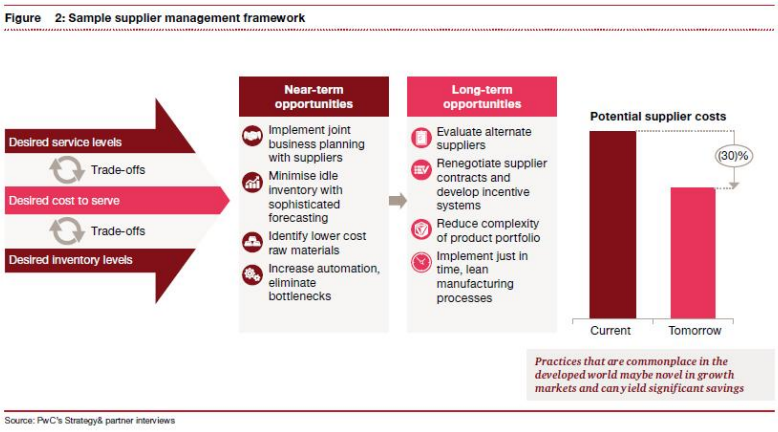

Figure 2. Case study 1: Productivity focus at CEMEX

Headquartered in Mexico, CEMEX has grown from being a regional cement firm in the 1990s to a leading supplier of cement, ready-mix concrete and aggregates to more than 50 nations worldwide. The company's focus on building new capabilities such as solutions-oriented innovation and operational proficiency helped it to bounce back from near bankruptcy during the 2008–09 economic crisis, to become the most profitable multinational in the cement industry today. Operational focus at CEMEX stands out due to the company's adherence to these principles even during the time of crises pursuing a strategy of 'ruthless operating efficiency', a popular slogan within the company. As well as the slowdown in global demand in 2009, the company also faced challenges associated with obsolete systems and processes, and issues with integrating acquisitions made in recent years. Focusing on productivity improvement, the company hired process experts, technology consultants, software developers and change management experts to design and implement a new technology system and process model that integrated all its business functions across markets. The company's technology focus and the new integration platform spawned various improvements in terms of greater visibility and accuracy of profitability analysis, identification of transformation and cost reduction initiatives, robust demand and sales forecasting and improved sales force effectiveness amongst many others. For example, the new platform enabled sales representatives to plan and commit to delivery dates on the go, across product lines. The company now claimed to deliver cement within 20 minutes of receiving an

order in many locations. It also enabled stronger postmerger integration, enabling easier transfer of best practices from the global firm and sharing of new innovative practices from newly acquired companies. Despite the onslaught of the global financial crisis, CEMEX continued to make investments into its knowledge-sharing platform, in technology systems and employee training to support operational efficiency and innovation. It also established a trading division to reduce the volatility risks associated with commodity businesses such as cement. *"These operational capabilities have, over time, enabled CEMEX to convert risks associated with demand volatility into asource of competitive advantage. We do not see volatility as an occasional, random element added to the cost of doing business in an interconnected global marketplace. We plan for volatility. We prepare for it. We have learned how to profit from it. (The CEMEX Way, March 2009)* Lorenzo Zambrano, CEO, CEMEX – 1985-2014.

Case study 2: Kellogg's foray into India

Facing stagnation and rising competition in its core markets of the US and the UK, Kellogg's, a leading producer of cereal and convenience foods, decided to venture into new geographies in the 1990s. It entered the Indian market in 1994, by positioning its cornflakes as a healthier breakfast option by highlighting the nutritional values of the brand. However, the company faced significant challenges in switching the breakfast habits of Indian consumers, who were more attuned to hot breakfast foods and were not attracted to a single flavoured cereal served with cold and unsweetened milk. Following some initial hype, Kellogg's was failing to generate repeat sales and recorded a 25% decline in monthly sales by April 1995, as the product went against traditional consumption habits, was priced much higher than local players and its promotional campaign was being negatively perceived by Indian housewives. Facing such a rejection by Indian consumers, Kellogg's decided to go back to the drawing board to modify its business strategy and align it to local requirements. It started focusing on promotions that sought to induce people to try the product, reduced pricing and also launched new small-sized packs specifically for the Indian market to overcome the price sensitivity of consumers. Promotional messaging was changed to reposition cereals as a fun choice rather than a nutritious one, while focusing on localising the brand by adopting more local words such as Iron 'Shakti' and Calcium 'Shakti' in the new variants. In terms of offerings, Kellogg's decided to launch new sugar-coated products such as Frosties in 1997, which were highly successful as Indian consumers were rejecting the unsweetened cornflakes with cold milk. On the operations side, the company focused on shifting all sourcing including packaging to India to reduce costs, and on widening distribution presence to further consolidate its market position. The results of making this shift were clear – Kellogg's went on to play a major role in quadrupling the size of the breakfast cereals market in India from INR 150 million in 1995 to INR 600 million by the year 2000, taking its market share to almost two thirds. While Kellogg's has maintained its market lead since then, more recently, looking to triple the size of its business in the next few years, the company has decided to set up an R&D centre in India to further strengthen its technical capabilities to make products for the Indian market. The example of Kellogg's shows how global companies often assume that existing products will work in new markets. However,

understanding local consumption behaviour and tastes is key to building a successful brand in growth markets. Changing existing customer habits to foster the adoption of alternative solutions can be quite challenging and innovative strategies therefore need to focus on maintaining or lowering the perceived cost to the consumer while offering additional incentives to switch to these alternative options. Lastly, innovation does not need to be restricted to new product features. As well as having the right product, successfully targeting growth markets – many of which have price sensitive consumers – also requires changes to both marketing (pricing, packaging etc.) and operational aspects (supply chain, distribution etc.) in order to achieve sustainable growth. (The Times of India, 2015).

RESULTS & FINDINGS

As mentioned through multiple examples below, most successful companies focus on using their capability system to create their competitive positioning in the market.

Provide distinctive Service: Danone To serve socially disadvantaged customers, Danone often partners with local NGOs and social impact organisations to promote research and education about nutrition, diet and public health.	***Achieve maximum go-tomarket Efficiency: Frito-Lay*** Frito-Lay has developed a proprietary enterprises system to reduce manual handling throughout the value chain (automated packaging, case picking and forklift transportation) and maximised productivity globally.
Uniquely serving maximum segment types: Coca-Cola Coca-Cola invests heavily in consumer insights and understanding local customer psyches which then inform local brand positioning, packaging, price point and even product tastes.	***Achieve store dominance : P&G*** P&G leverages its global sales force to ensure its category-leading brands achieve maximum distribution footprint in relation to competition.

Conclusion

Winning in maturing markets requires patience and tenacity, as the economic growth journey in these markets is much more complex to navigate as compared to developed markets. But with these virtues and an efficient, innovative and localised business model, companies will be able to participate in the success these markets will enjoy as the new leaders of global growth.

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