PART ONE
Planning for growth

Working together to grow your business

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Building a business model that lasts

1.1

Gillian Lees, Head of Corporate Governance at the Chartered Institute of Management Accountants (CIMA), reviews the challenges of growing a business that makes money in the long term

No one starts a business to fail and, fortunately, few purposely run a business to ruin. Founders, managers, board members and most other stakeholders usually want their companies to prosper indefinitely. But what are the challenges facing companies as they strive to create sustainable companies – especially the growing business, which may find that the strategies that served it so well come under pressure at a larger scale? Fortunately, there are simple, but powerful frameworks and insights that can help businesses address the right questions as they manage their growth journey.

At the heart of such questions is the need to build and sustain a resilient business model. Systematic thinking about the concept of the 'business model' appears to be a recent, but increasingly important aspect of strategy. It is now often described in annual reports and other corporate literature even though research has found that, as yet, there is no universally accepted definition.[1] For our purposes here, we will keep things simple and define it as the basis on which a company makes money.

In striving for growth, we will consider how companies need to:

- adopt a long-term perspective while managing short-term demands;
- understand the core components of their business model and where value lies in their organization;
- ensure that the business model remains 'fit for purpose' in the light of rapidly changing market developments.

We also draw on insights from a recent AICPA/CIMA survey of 280 CEOs from over 21 countries across the world, which looked at current global challenges and what they saw as the priorities in leading their way through them. The research also included further in-depth interviews with 17 CEOs, chairmen and other business leaders who between them are responsible for over 2.1 million jobs and market capitalization of $1trn. Their overwhelming response was that the human dimensions

of business, for example customer and supplier relationships and talent development, need to be the key focus for growth over the next 18–24 months as this is where most value in the company lies.

Success for the long term

Short-term thinking in business is often blamed for all manner of ills, particularly against a backdrop of global financial crisis and concerns about environmental challenges such as climate change. It is no wonder that companies and their shareholders are exhorted to think long term.

But what does this look like in practice? One of the surprising discoveries that we made in an earlier CIMA study was that, despite frequent reference to the long term, there is no agreed definition. We even came across an example of a 100-year business plan! Although specific industry characteristics have an effect on how companies see the future (for example, capital-intensive industries such as energy and steel are going to be very different from fast-moving consumer industries), companies need to define the long term for themselves.

An additional challenge is that adopting a long-term perspective does not negate the need to tend to the immediate needs of the company. After all, 'cash is king'.

For the larger listed companies, however, the most visible source of short-term pressure is the need to please the stock market. Indeed, our research showed that a majority strongly agreed that investor focus on short-term rewards makes it difficult to plan for the long term with a ratio of 6:1.

But other pressures are often more subtle and needlessly interfere with long-term goals. These are two pitfalls for growing companies to avoid:

- Performance targets for business units and individuals can support behaviours that counteract long-term success. For example, management bonuses may be tied too closely to achieving quarterly or annual sales targets at the expense of sustained customer relationships, as illustrated in a CIMA-sponsored case study of a major car dealership in the Netherlands. Here, it was discovered that most profit was generated from loyal customers who both bought a car and maintained a long-term relationship through servicing and other services rather than from incidental customers who bought a car and were never seen again. However, targets were based on new car sales. This needed to be shifted through redefining performance and creating new indicators and targets.
- Following the herd in terms of strategy. Doing what everybody else does may seem tempting – especially when the immediate rewards are promising – but may hinder the company's ability to build competitive advantage.

Once a company has clarified its own definition of long term and articulated its goals, it needs to ensure that its short-term actions are aligned with these goals on a dynamic basis.

A useful starting point is to distinguish between a long-term perspective and a long-term planning horizon. The perspective provides a vision of how the company imagines the world, ideally 20, 50, even 100 years into the future. It provides a

guiding star that directs the company, offers a sense of purpose and helps with evaluating today's decisions. The planning horizon must be more practical. It should offer targets that are far enough into the future that creativity isn't stifled because of time limitations, yet near enough to the present that changes need to begin immediately for the targets to be reached. For many companies, a 5–10-year horizon enables short-term action plans to be aligned effectively. As the example of the Dutch car dealership showed, a clear picture of where value lies is necessary to devise the right performance indicators and targets. This is where understanding of the business model is so important.

Focus on the business model

In addressing the basic question: 'How do we make money?', growing companies must focus on five critical, but interrelated areas as follows:

- Cost leadership – this requires non-stop efforts to increase efficiency and reduce the cost of resources used by the business. Lowering costs allows organizations to generate higher margins at prices that are more competitive and can free up valuable funds for innovation. Furthermore, with increasing pressures on natural resources such as energy, cost leadership is a good habit to get into. It is no surprise that our CEO survey revealed that reducing costs would be the single most important action being taken to achieve growth in their businesses over the next 18–24 months.
- Durable supply chain – for a business to succeed in the long term, it needs to secure the supply of resources used to produce its goods or services. A durable supply chain is an inescapable component of a successful business model but needs to be balanced against the need to achieve cost leadership; for example, excessive pressure on suppliers to offer low prices could impact on their ability to pay fair wages, so having a longer-term adverse effect on supply-chain durability.
- A motivated and skilled workforce – for our CEO respondents, upgrading and strengthening talent represented the most important cluster of actions for growth alongside improving the financial position.
- Attracting and retaining customers – no business can survive without customers, but growing companies need to understand the power of new technology to create new relationships, for example the use of social networking technologies to gain new insights, as well as the increasing role of the customer in contributing to product development and innovation. Growing companies need to consider how these issues impact both on how they deliver the product to the customer and on what they actually sell.
- Ability to innovate – this underpins the other four key areas of focus, but the rapidly increasing speed of technological change means that innovation demands constant, dedicated attention if the business model is not to be rendered obsolete.

These areas of focus are consistent with the factors that CEOs told us represent the major sources of value in their businesses. Sixty-eight per cent cited non-financial factors as being the crucial value drivers, as follows:

- customer relationships;
- knowledge and human capital;
- technology;
- strategic vision;
- intellectual property;
- supplier relationships;
- processes.

A current challenge lies in being able to measure and manage this value more effectively to help companies make better decisions about how and where to invest resources and effort. Nearly two-thirds of our respondents agreed that they needed to do this better. But even without the benefit of better management information, a striking and common theme running through the in-depth interviews was that attention to these non-financial dimensions is key to growth and future success.

Responding to change

Growing companies need to ensure that their business model remains fit for purpose. It's helpful to do this systematically, for example by basing questions on the CIMA Strategic Scorecard® framework. This was originally developed to help company boards oversee strategy more effectively, but its basic four-point framework can also highlight the areas that companies must address in order to maintain a sustainable business model as follows:

- External environment – analysing key changes, for example, competition, technology.
- Strategic risks and opportunities – what are the implications of these changes for the way we make money?
- Strategic options – how can we translate these risks and opportunities into a range of options? One study suggests that companies need to consider what additional competencies they should develop and try 'strategic experiments' to test new possible business models.[2]
- Strategic implementation – selecting and implementing the option(s).

Concluding remarks

To achieve long-term sustainable success, the growing business must have a firm handle on its business model with a clear understanding of where value resides in the

company. Our research shows that it is the 'human dimension' of the business – for example, customer and supplier relationships, talent and intellectual capital – where companies need to focus their efforts.

Further information

AICPA/CIMA (2012) *Rebooting Business: Valuing the human dimension*, www.cgma.org
CIMA (2011) *Building World-class Businesses for the Long Term: Challenges and opportunities*, www.cimaglobal.com

Notes

1 The business models investors prefer, *MIT Sloan Management Review*, **52** (4), Summer 2011
2 The business models investors prefer, 2011

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Go global to grow

1.2

Are you focusing on expanding internationally? If not, you may be missing the best opportunity for growth in the current economic climate. So start thinking like a global entrepreneur, says Dr Bruce Johnstone, the Business Growth Programme (BGP), Cranfield School of Management

The big growth opportunity for many UK firms lies in finding an entry into the emerging economies and providing their consumers with the more sophisticated goods and services that they will increasingly demand. International expansion is an attractive growth strategy because it allows companies to grow their business rapidly while continuing to concentrate on what they do best instead of trying to do something they know very little about. It can often make more sense to expand globally than to attempt to diversify in the local market and risk a loss of focus.

Business owners face a series of strategic choices as they consider global expansion. They must decide which markets to enter, and what mode of entry to employ in each of them. Will they deal directly with end users of their products and services? Or will they involve agents, distributors, partners or other intermediaries in foreign markets?

Go online

Small and medium-sized enterprises (SMEs) can use international distribution and fulfilment services to supply end users of their products directly, almost anywhere in the world. International customers can buy their offerings online or through an intermediary such as eBay or a television shopping network. A global SME might source goods from China using online services such as Alibaba.com, then sell them through its own website and on eBay and then have the fulfilment managed by Amazon. The owners of successful automated global SMEs are making money while they sleep.

The key to making this sort of business model sustainable is to add something special along the way that customers will value, such as design flair or technical expertise. An example of this is a small jewellery designer in Derby that buys beads from China, and assembles them into attractive and unique jewellery to sell online.

Make and export

Any business that enjoys a product or service niche in its home market should investigate ways to exploit that niche globally. It could provide the opportunity to boost production and make much more profit from existing investment in factories, equipment and knowledge. For example, 30 moulding machines at Numatic International in Somerset work 24/7 to supply British-made vacuum cleaners to a global market. While exporting locally manufactured goods creates employment in Britain and brings a better return on investments in factory buildings and manufacturing expertise, the challenges of exporting British-made goods include high transport costs, trade barriers and dealing with local agents.

Set up a subsidiary

Establishing a wholly owned subsidiary in a foreign market enables a business to get close to its offshore markets, cut transport costs and engage in global strategic coordination. By retaining full control, technology and knowledge can be protected. The disadvantage of this approach is that it usually represents a large and risky investment in a foreign market.

Find a partner

Licensing and franchising enable firms to expand globally without the development costs and risks of expanding manufacturing. A joint venture provides an opportunity to share development costs and risks with a local partner. It can overcome political and economic barriers to market entry and in markets such as China is often the only option for a foreign firm.

The disadvantages of partnership approaches can include a loss of control over quality and the ability to coordinate manufacturing globally. The possible downside of shifting production offshore is the loss of ability to exploit economies of location and experience.

Turnkey projects

Firms with innovative technology are in demand in developing markets and should consider exporting their know-how in the form of a turnkey project. This is often an opportunity to enter markets where foreign direct investment is restricted. The downside of this approach is that there may be no long-term presence in that market, and the firm may have created an efficient international competitor.

Rebuild your business as a global firm

Of course, deciding on a sound strategy for entering your first international markets is only the start. Global entrepreneurs have to wrestle with international finance, accounting, HR and marketing. They must contend with the more complex cultural, political and economic issues that will affect their global business. You and your team need to start thinking and acting like global entrepreneurs.

To rebuild a local UK business into a global firm, just about every aspect of the firm will need to be re-examined. As the firm makes the transition from local trading to global entrepreneurship, the owner needs to follow a step-by-step process that goes back to basics and looks at each component of the business in turn.

Eric Flamholtz (Flamholtz and Aksehirli, 2000) puts forward a good step-by-step model for understanding the different elements that need to come together in a successful business. He suggests that firms that succeed in the long term have progressed successfully through six key steps:

- identification and definition of a viable market niche;
- development of products or services for the chosen market niche;
- acquisition and development of resources required to operate the firm;
- development of day-to-day operational systems;
- development of the management systems necessary for the long-term functioning of the organization;
- development of the organizational culture that management feels necessary to guide the firm.

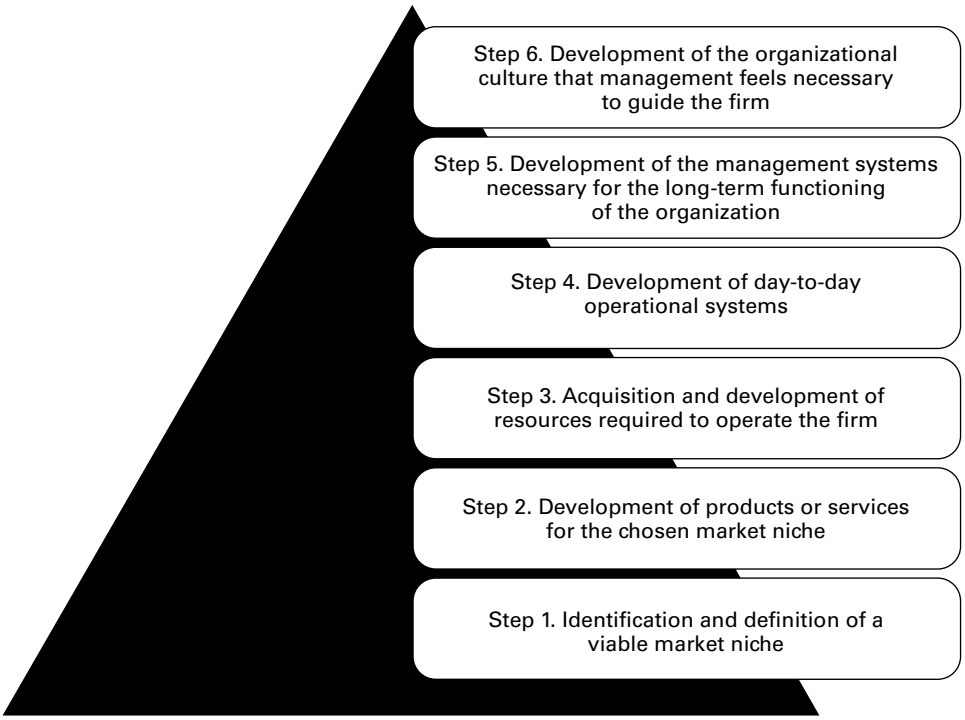
First understand the market

These steps form Flamholtz's Pyramid of Organizational Development (see Figure 1.2.1), which is built on the foundation of a clearly defined market. Your first task in going global is to establish if there is a viable niche to exploit in your proposed new market. Many new exporters struggle with this first step and make the mistake of assuming that foreign markets are similar to their familiar domestic markets. In reality the market niche is likely to be more different than you expect, and be different in ways that you did not anticipate.

For example, UK firms entering the United States often fail to appreciate that each state has its own distinct political, legal, regulatory, economic, cultural and social environment. Industry systems and business practices are well established and can be difficult to break into. Compliance requirements can be very complex and vary between different states, and even between neighbouring counties.

An excellent approach is to meet and talk with some of the sorts of people who you hope will be the end users of your product or service in the target market. Ask them where they would expect to buy a product such as yours. You should uncover insights into how the local supply chain works in your industry, and who are the preferred suppliers.

FIGURE 1.2.1 Six steps for success (adapted from Flamholtz's Pyramid of Organizational Development)



Does your product or service fit the niche?

Once the market opportunity is understood, the product or service needs to be reviewed to make sure it is a perfect fit. If you are fortunate, your product might need little or no modification, but it is more likely that your export product or service will need to incorporate changes of some kind.

Labelling and packaging is an example. Not only must it comply with every local regulation, but you also need to accommodate local language and culture. Even within the English-speaking world there are important differences in spelling, grammar, punctuation, word usage and the formatting of dates, for example.

You need to investigate if your UK brand name is available in the target market. If so, does your brand name have any unfortunate meanings locally? Many firms find that they need to create new branding to enter international markets.

Putting the resources in place

Once markets are established and products and services are adapted, the firm must then focus its attention on the next higher step of the pyramid, which is resource management. Financial, technological and human resources must be up to the task. The UK resources you used to run a local business are likely to be found wanting when you go global.

Your resources also need sound operational systems to run them. Consider thoroughly overhauling your systems for operating finance, technology and people to make sure they are adequate for an international firm. It helps that many of the professional firms and suppliers you will deal with are also global enterprises themselves. Ideally your bankers, accountants and lawyers will have international expertise and operate offices with local experts in your target market.

Becoming an exporter may provide you with access to new forms of finance for your growing business. For example, Letters of Credit can be an excellent financing mechanism for international transactions, by providing both you and your bank with a guarantee of payment. This can actually make manufacturing for export easier to finance than manufacturing to supply local customers.

Developing international management

Management systems sit above operational systems on Flamholtz's pyramid. This is the step where planning, organization, management development and performance management take place. Once you are assured that your emerging global organization has a strong base, a sound market, products or services and resources, it becomes important to focus on management. You are likely to face the challenge of developing a management team that can operate successfully in your target market. This might mean finding local managers and integrating them into your organization, or it might mean integrating members of your management team into the target country, or a combination of the two approaches.

Building a global corporate culture

Finally at the top of the pyramid is corporate culture, where the values, belief and norms of the organization reside. It is important for these to develop as an organization becomes international.

As an organization grows globally it becomes multinational and multi-local – acting like a local in each of its markets, but held together as an organization by an overarching global culture. Leadership and governance of the organization need to be up to the task of sustaining global entrepreneurship.

If this short article has started you thinking about taking your UK-based business to the world, please visit the UK Trade & Investment (UKTI) website to begin your journey of going global to grow.

Reference

Flamholtz, E G and Aksehirli, Z (2000) Organizational success and failure: an empirical test of a holistic model, *European Management Journal*, **18** (5), pp 488–98, doi:10.1016/S0263-2373(00)00038-4

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SME finance

1.3

Angela Knight, Chief Executive of the British Bankers' Association (BBA), discusses how SMEs can access the right finance

Banks are open for business and there to lend. But banks aren't always the right finance. When a company goes in search of support, it might be time to call on an equity financer or a business angel. The BBA and its members are committed to improving their understanding of SMEs – what makes them tick and tick over, develop, grow and succeed. We're also fully invested in sharing and showing SMEs the wide range of financing options that are out there and exploring mutual opportunities to help companies grow. Knowing where everyone sits on the finance supply chain – what they offer and on what terms – will make it easier for customers to see where they fit into the national business model. And many of us agree that that model is central to rebuilding our economy.

In March 2012, independent surveyors BDRC Continental released the third report from the SME Finance Monitor. The SME Finance Monitor was commissioned by the banks as an authoritative study of the small and medium business sector: every quarter, 5,000 companies are contacted and posed a series of questions investigating their use or intended use of finance, be it from a bank or another source. Not only are they asked about the brass tacks of their funding arrangements – are they currently using finance, have past funding applications been successful or do they plan to seek financial assistance in the next three months, for instance – but also about the thinking behind their decision to use or not to use external funding to support and develop their business.

The SME Finance Monitor further investigates the factors that impact a firm's access to finance, factors that feature both within and without the business. It also gets to the nitty gritty of company structure: does the firm have a business plan? Do they keep regular and accurate accounts? The sort of questions that get to the sort of answers that might signal that a business is likely to succeed or likely to struggle, given the economic challenges of today.

The findings of the March 2012 report from BDRC Continental were along very similar lines to those of the two previous surveys. The overwhelming number of small and medium-sized businesses looking for credit was successful in raising finance from their banks. Last year, 79 per cent of businesses seeking credit came away with a credit facility.

The figures showed that confidence in the economy was a major consideration for businesses possibly seeking finance. In the last 12 months, only 7 per cent of SMEs applied for new of renewed overdraft facilities and just 3 per cent asked for a loan. These figures for Q4 2011 are down from 13 per cent and 5 per cent respectively as compared to the first survey, conducted in Q1/2 2011.

Though demand continued to fall, banks continue to have funds available to lend to businesses with a viable plan, a good track record and an existing relationship with their bank. The research showed that there is likely to be even less willingness to borrow in the next few months: uncertainty about the economic climate is putting increasing numbers of business off applying. Around two-thirds of businesses said they would not want credit in the next three months and about 52 per cent of businesses cited the wider economy as a barrier.

But to those viable businesses that are bravely seeking funding in these tough times: what sorts of funding are available to them? Today, it is not only a question of a business demonstrating innovation in its products and services, but also of showing ingenuity and resourcefulness in the sorts of finance they pursue. We the banks are here to support them.

Last month, I was privileged to attend an event at 10 Downing Street which acknowledged the premier importance of business angels. Not only do angel investors bring vital finance and investment to businesses, they also offer that all-important guidance and mentoring to companies as they develop and grow. I was delighted to recognize the contributions that angels make to British business.

There are approximately 15,000 angels in Britain, investing nearly £1 billion every year. As such, angels figure as the most important source of capital for start-ups and early-stage businesses, and 2012 is going to be an exciting year for angel investment. The landscape of UK policy is shifting to encourage and incentivize angels, as well as the various co-investment opportunities that partner public and private financial support.

We felt at first hand the positive impact that angel investment has had last year when we rolled out the Better Business Finance (BBF) campaign. Regional outreach events were a central feature of the BBF programme: the BBA and its members took to the road to improve bank relationships with business, ensure access to finance and pave routes to alternatives sources of funding.

It is critical that a business at every stage of its development secures the right finance from the right partners for its specific needs. Listening to the dialogues between those who provide finance and those businesses that seek it in towns and cities across the country, it was clear how important the angel community is to the UK's start-up and growing companies. It was also clear that forming strong collaborations between the banks and those alternative business finance sources is an essential part of getting the economy going.

Another legacy of the Bank's and BBA Business Finance Taskforce commitments, complementing the BBF initiative, is the Business Growth Fund (BGF). The Fund was established as an independent company and is sourced by five of the UK's major banks. It delivers equity finance to companies with turnovers of between £5 million and £100 million. The aim is to fill something of the gap between debt and equity in small and medium-sized business finance, rebalancing the funding burden on developing companies.

A connected financial environment supporting small business growth is essential. As the first BGF investments have been awarded, now is the time to work out how and where finance options can be interconnected and providers such as the BGF and angels can work together as a collective to benefit UK business. That isn't only in terms of stumping up the finance. We have to make sure that they are 'finance ready',

with good propositions and detailed plans: more than anything else, this will encourage investor confidence.

I mentioned the BBF campaign and the massive success of its 2011 regional roadshows. Over 2,000 businesses attended 13 events held up, down and across the country. I was at each event to hear about and to learn from the challenges they face, many of which were familiar to me as a former self-employed businesswoman.

Sources of further information on SME funding

1. SME Finance Monitor: http://www.bdrc-continental.com/business-sectors/financial-and-business/sme-finance-monitor/
2. BBF: www.betterbusinessfinance.co.uk
3. BGF: www.businessgrowthfund.co.uk
4. mentorsme: www.mentorsme.co.uk
5. Finding Finance tool: to be launched at end of March 2012.

These face-to-face encounters have been bolstered from the word go by a number of websites designed specifically for SMEs and for start-up companies. And these virtual mentors – sites that are there, brimming with all sorts of information whenever a business needs it – have been matched by a real network of committed and experienced business mentors. There are now 15,000 mentors available via the mentorsme.co.uk site. Since launching last summer, over 500 existing and recently retired bank employees have been recruited and trained as mentors and partnered with established not-for-profit mentoring organizations, and several hundred businesses have been mentored.

This year, BBF will continue to support SMEs. The campaign intends to repeat the proven 2011 formula for success.

We have listened to government advice on what needs to be done to encourage business growth, and on where and when to do it. Further outreach events are planned, which will this year include MPs holding constituency surgeries on mentoring and access to finance roundtables with business groups and continuing to support UK export finance and UK trade and industry. That cooperation between banks, business and politicians is crucial.

And a new online Finding Finance tool will be launched, helping businesses track down the right funding for them in their area. I am happy to say that the website is the product of collaboration between the British Business Angels Association, the British Chambers of Commerce and the Department for Business, Innovation and Skills, as well as a host of other organizations committed to the cause of SMEs.

The year 2012 is the year of the London Olympics: a real cause for national pride. The UK's small and medium-sized businesses are another such cause. The banks are

ready to train and support them; to broaden the shoulders of those businesses with the potential or proven strength to succeed.

Angela Knight is chief executive of the British Bankers' Association. The BBA is the leading trade association for the UK banking and financial services sector. We speak for over 200 member banks from 60 countries on the full range of UK and international banking issues. Further details: www.bba.org.uk

The world's biggest business opportunity

1.4

Chris Jaques, CEO of M&C Saatchi Asia, on how to profit from the emerging middle class in China and India

Global spending by the world's middle class will more than double in the next 20 years, from $21 trillion today to a breathtaking $56 trillion by 2030, according to the Organisation for Economic Co-operation and Development (OECD). An incredible 80 per cent of this extraordinary increase – more than $35 trillion in additional consumer spending – will come from the emerging middle classes of Asia.

What's more – this growth will be dominated by only two countries. Today, China and India account for less than 6 per cent of global middle-class expenditure, combined. Yet within 20 years, they will account for an incredible 41 per cent.

The Chinese middle class will be bigger than that of the United States by 2020, and will exceed the EU by 2026. India's middle class will grow even faster, exceeding the United States by 2021, China by 2023 – and soon overtaking the EU, to become the world's largest by 2026.

The rise of the middle class in China and India will represent, quite simply, the most profound business opportunity in our lifetimes. It will also represent one of its biggest challenges.

One beast, two bodies

China and India have been the world's two largest economies for 18 out of the last 20 centuries. Historically, the brief era of Western domination is a short punctuation in the continued dominance of these two ancient nations.

But while China and India may be connected by history, geography and opportunity, they are much more profoundly divided.

Whereas China began its process of economic liberalization in 1978, India didn't open up until 1991. Even after that date, the Chinese political system has led dramatic national development in ways that the cumbersome democracy of India simply couldn't match.

China's infrastructure is way ahead. Her road, rail and air transport systems are rapidly developing into some of the world's most modern, whereas India's remains one of the world's worst. The port in Shanghai can turn around a ship in eight hours, for example, whereas it could take three days in Mumbai.

Socially, the differences are just as dramatic. In India, 42 per cent of the population still lives in poverty, versus only 3 per cent in China. India still suffers from illiteracy rates of around 40 per cent, versus only 10 per cent in China.

Two bodies, a million legs

If there are dramatic differences between the two nations, there are even greater differences within them.

India has at least 2,000 ethnic groups and over 400 languages. China has 56 official ethnic groups who communicate in more than 240 languages.

The majority of China's middle class is spread across the country's 150 cities that have a population of over 1 million. The distances and differences between those cities are dramatic. Most don't speak the same dialect, eat the same food or dress for the same climate. But these challenges pale into insignificance when compared to the challenge of India.

India is so rural and fragmented that if you want to target 60 per cent of India's urban population, you would need a distribution and logistics capability that could reach no fewer than 3,500 towns and cities.

Business, therefore, needs to stop thinking of China and India as countries – and start thinking of them as continents. Each is a new Europe: huge and fragmented, a combination of distinct, different entities.

From our experience working with many of the region's most successful brands – from major Asian brands like Lenovo, to some of the West's most successful brands in Asia, like VW – we believe that there are many principles which are fundamental for success. But I will focus on just two.

Rule number one: focus on the future, not the present

The demographic, geographic and cultural changes that we can forecast over the next 10 years will shape how and where the middle class opportunity will develop in each country.

Demography will create bigger opportunities than are currently obvious. India has one of the youngest populations on earth, and China has one of the oldest. This will lead to profound generational differences between today's middle class and tomorrow's.

Psychology: These new generations are thinking differently. In China, for example, consumers born after 1980 are profoundly different from the

generations before. They are more global, more financially secure, more individualistic, yet equally patriotic and proud of China's transformation. And because they were children in one-child households, they are allowed to have two children themselves.

This is an entirely new generation of middle-class consumer, an entirely unique consumer mentality and marketing opportunity. The first of them will reach the age of 32 years this year, and by 2015 they will account for more than 50 per cent of China's entire population.

Geography is providing entirely new regional opportunities, as a result of dramatic urbanization. Around 50 per cent of China's population now lives in cities, but only around 29 per cent of India's. We have forecasted urban growth rates over the next 20 years, and the findings prove that there are exciting new geographic opportunities for most business sectors throughout both countries.

Future focus: The future will offer a different market, populated in different geographies, by different consumers. And it will be worth $35 trillion more than the market of today. The opportunity for new marketers, new products and new services has never been bigger.

While this opportunity is enormous, however, the businesses that will be most successful will not be 'thinking big' at all.

Rule number two: think small to get big

It would be naïve to attempt to try to develop a Chindia strategy. It is equally naïve to try to create a common China strategy or one overall India strategy. These markets are too big, too complex and too fragmented.

Yet, if you 'think small', it's much easier for any business – regardless of size – to achieve success. Thinking small enables companies to become much more competitive, in all areas of their business.

Micro-marketing: Whether you follow McKinsey's 'Cluster' strategy or Accenture's 'Matrix of Microsegments', both of them are clear that it's critical for every company to target smaller geographies in order to conquer the biggest opportunities. Geographic focus enables businesses to build brand dominance and create cost efficiency. By focusing a China strategy on specific regions – like the Shanghai/Nanjing/Hangzhou region, for example, or the Szechuan/Chongqing cluster – businesses can develop a targeted offering which exploits common consumer needs and minimizes operational costs, while still providing a scale of business opportunity that is larger than most countries.

Micro-distribution: Supply chain management is a major challenge for every company in both China and India. Logistics costs in China are three times more expensive than in the West. And whereas 80 per cent of the retail sector is organized in most Western markets, it's only 20 per cent in China and 4 per cent in India. Once you do get distribution, gaining impact at point of

purchase is an equal challenge. The informal retail sector follows its own rules, and the typical supermarket in China already stocks more products than its competitors in Europe. The challenges of logistics and distribution are insurmountable for most businesses on a national basis – yet a geographic focus can help provide the clarity that leads to more effective – and cost-effective – management.

Micro-messaging: China is the world's most developed market in terms of internet usage, social media involvement and mobile marketing. There are almost one billion mobile phone users, over 500 million internet users and 250 million microblog users. They spend more time online than their Western equivalents, and they are more active when they are online. Eighty-four per cent are active on social networks and microblogs in China, for example, versus only 64 per cent in the UK and 60 per cent in the United States.

A quarter of these users say that they won't purchase a product offline without researching it online. Fifty-six per cent say they regard online advertising as more credible than TV advertising. And, in a fundamentally communitarian culture, word of mouth and 'recommendations by friends and family' are the biggest influences on brand purchase.

While India is way behind China in this respect, with only around 100 million internet users, it is already the world's second-largest Facebook market, and 11 per cent of internet users shop online.

In both countries, digital and mobile communications are becoming fundamental tools for the emerging middle class. And they are truly mass-market media, offering smart marketers new and cost-effective opportunities for micro-targeting and micro-messaging.

The diamonds are in the details

It's very easy for anyone to get seduced by the potential of Chindia's massive middle class. But Chindia is too big to treat as one opportunity – and each country is too big to treat as one market.

Many of today's main markets are intensely competitive. But today's market is miniscule compared to the scale of the opportunity that is emerging. Smart businesses will focus on the future opportunities more than the current ones. And they will focus on smaller regions, clear consumer segments, specific retail strategies and targeted communications channels. Because, however big the opportunities may be, the diamonds lie in the details.

As Sun Tzu said: 'Strategy without tactics is the slowest route to victory. Tactics without strategy is the noise before defeat.'

Chris Jaques is one of Asia's most experienced business leaders. He has been CEO of North America and Asia Pacific for Young & Rubicam; President of Europe for Ammirati Puris Lintas; Chairman of Asia Pacific for BBDO; and CEO of Asia for Bates Worldwide. Currently CEO of M&C Saatchi Asia, Chris is a passionate believer in the power of simplicity during an age of increasing complexity, and is evangelical about its fundamental importance in the success of all businesses, regardless of geography, sector or scale. Further details: e-mail: chrisj@mcsaatchi.com.hk; website: www.mcsaatchi.com or twitter.com/HEREcomesNOW

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Growth by design

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Former chief executive of Jaguar and BAA, and now Chancellor at Coventry, one of the UK's most enterprising universities, Sir John Egan comments on the gains that can be made in bringing performance up to world class

The automotive industry is seeing an extraordinary revival in the UK. Jaguar, Land Rover, BMW, Honda, Nissan and Toyota are all performing well internationally. Up-and-coming volume manufacturers like Tata and Shanghai Automotive are investing in the UK as a base for design and production. Alongside such marque names, the UK's supply base has re-engineered itself and is attracting business back from centres of low-cost production.

What is driving the UK's comeback as a motoring power? A currency that can adapt to commercial circumstances and a workforce that accepts the need for flexibility certainly help. But the real change has come from how the industry as a whole has upgraded its design practices in a continuous search for better performance. When you are up against the best in the world, you have to strive constantly for the best quality at the lowest cost in everything you do.

At the start of Jaguar's turnaround 30 years ago, it was hard to find any suppliers who were capable of cooperating to create world-class components in the UK. Now when you build a new model, you can pull design teams together to improve every aspect of performance. Instead of haggling over the price of a component, you work as a team to design in high quality and low cost from the beginning. You all carry on working on its design on computer until you are better than your competitors.

By reviewing and testing each part in this way, cars are becoming stronger, lighter, more fuel efficient and better at satisfying the customer. The design principles in each model are then built into the process controls that will drive the next set of innovations, so improving all components from model to model.

It is not just about clever engineering. To justify the premium for a luxury car like a Jaguar, you have to create an air of magic. The image, marketing and support all have to be right with a dealer chain that goes the extra mile. The more value you create for a customer, the stronger the brand becomes and the better you will do.

This formula for creating high quality at low cost is one that could translate to other industries. In construction, major customers like Tesco, Whitbread and Severn Trent have been pushing for a more collaborative approach in the early stages of planning and designing projects.

So far, the response from contractors has been limited. Although safety is dramatically better, only modest improvements have been made in productivity and cost performance. By and large, aspirations within the industry remain relatively low:

make a profit on a project, then move on. Rather than carrying forward gains in productivity from project to project, work tends to start from scratch each time.

But the same principle of working in collaborative design teams to create high-performance cars could underlie the construction of more world-class buildings, particularly in response to a challenge of making them as free of carbon as possible. Every building should be more cost and carbon effective than its predecessor.

It is around such opportunities that growth is going to happen. In the UK, we want to make sure that we seize as full a share of these new markets as possible.

At Coventry University, we are reconfiguring the university around the six major challenges that are going to drive the economy forward in the next few years. As well as low-carbon buildings, we are focusing on:

- low-carbon vehicles;
- digital media;
- sustainable food and agriculture;
- the ageing community;
- integrated transport and logistics.

If we are going to make our way in a globally competitive world, it makes sense to draw on the intellectual firepower that lies within universities. To engage with local companies, we are sending out advisers to talk about how we can contribute to their plans for improving their skills and upgrading their technology through joint research.

For students, our aim is to give them a set of commercial skills, as well as a technical knowledge of their subject. Many of them now include enterprise within their studies and all are encouraged to think about the possibility of starting their own business.

With help from the Institute of Directors, we have put together a scheme for mentoring anyone who starts a new venture and we have launched a fund for putting £3,000 to £30,000 into those looking to turn an idea into business either while they are still at the university or after they have left.

We know from experience that future growth in the economy will mainly come from innovative smaller enterprises. Our argument is that a university is the best place to start any new thinking, whether you are about to graduate or whether you are already running your own business.

Sir John Egan was chief executive of Jaguar (1980–90) and BAA (1990–99). He has subsequently chaired a number of major companies, including Severn Trent, Inchcape and MEPC. He also led the Construction Task Force to investigate the scope for improving quality and efficiency in the industry. Sir John has been Chancellor of Coventry University since 2008. In 2011, the university was judged by *The Times Higher Educational Supplement* to be Britain's most entrepreneurial. Further details: www.coventry.ac.uk