Strategic Direction

Turning competitive advantage on its head: The success of Latin American brands playing the west at their own game

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Turning competitive advantage on its head

The success of Latin American brands playing the west at their own game

Review

There is nothing more satisfying than seeing once dominant force get its comeuppance from the new kid in town. Whether it is in the movies or in sport, the narrative of a king being usurped by a young pretender is played out time after time, and it never ceases to fascinate. We see it in business as well, and usually it is an established but slow-moving firm being disrupted by a smaller, more nimble, more agile adversary who seems to simply pull the rug from right under their feet.

It is rare, however, to see mature but vibrant forces in business compete with rivals with fewer resources and lose at their own game. This is on the proverbial "level playing field", where despite the fact all things being generally equal, you see the incumbent force outplayed and outmaneuvered by new entrants. One might expect that the established parties have better market knowledge, more reach and deeper pockets to stave off any new competition, no matter how much the neutral observer might want the underdog to give their rivals a bloody nose. But in a new era of globalization, there are new rules that have yet to be written, and it may well be that what we have seen previously has been the start of a cycle, and it might just start turning things the other way in favor of those countries that have yet to feel the full benefits of the global village.

Team game

Testing this theory is difficult, as it encompasses many firms and markets from many different countries in order to compare and contrast their fortunes. Therefore, it takes a big team, which is why the article reviewed here is by no fewer than nine authors, which is very rare for a business journal article. That teams – Cuervo-Cazurra *et al.* (2018) – are from universities based in the USA, Brazil, Mexico, Chile, Peru, Argentina and Columbia, and worked together to research and write up the extremely comprehensive article, Uncommoditizing strategies by emerging market firms.

In it, the team of authors studies 18 well-known companies and brands based in Latin America to understand how they have been successful, but not through traditional means such as offering the same product at a cheaper price. Some of these brands have started to beat their competitors through more traditional single market approaches such as premium pricing, upgrading capabilities and offering high quality products.

A hill of beans

These latter strategies are terms as "uncommoditizing", as opposed to the more commoditizing strategies one would expect to be employed by firms from emerging markets. For example, if we take the common can of baked beans in the grocery store, one might expect an emerging market competitor to supply a low price point version, such as a

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shop brand, and compete with the major brands in that way. This is commoditizing as the commodity itself is being copied, and the differentiation is just on price. If, however, a major brand entered the market and offered a can of luxury beans at twice the price as the market leading product, it is using a premium pricing strategy based on the perceived high quality of the beans. As such, the new entrant is using an uncommoditizing strategy.

This is high risk, as it necessitates a huge amount of investment to even get onto the same shelf as the market leader, and that is before knowing if anyone will pay more than a dollar for a can of beans. However, it is also high reward, as it fills a niche not supported in the market, and with premium pricing should come premium margins for the new entrant and an opportunity to rapidly expand into adjacent markets.

Six of the best

The wide-ranging study used case studies of three firms in each of the six biggest economies in Latin America. These are, in rank order (in case you were wondering): Brazil as the largest, then Mexico, Argentina, Columbia, Chile and Peru. Brands people may be most familiar with included Bimbo brad, Elektra retail/finance and the wine producer Concha y Toro. The research completed was huge in scale, but the authors were able to point to three key elements that explained how the firms in question were able to develop success uncommoditizing strategies:

1. Tropicalized innovation – this is the leveraging of local market knowledge or resources to develop a product that has specific resonance in home markets, and as such can enable premium price strategies. Global brands are often able to price at this level through perceived quality or status, but local brands can learn to counteract this.
2. Global efficiency – this is where the efficiency of the supply chain is better and cheaper than established rivals, meaning that firms are able to compete not just through low labor costs. This efficiency can be developed over time through economies of scale and quality management processes.
3. Coordinated control – this refers to the ability to have control of a complex supply chains, often seeing firms at the start of value chains for global brands moving along that chain to more high-value positions. Learning from their roles in globalizing others' products, they are able to utilize this knowledge and process control themselves.

For managers in emerging companies, the ramifications for the framework presented here are huge, as they provide them with a simple, three-page playbook on how to move from potentially unsustainable competitive advantage from price differentiation, to more sustainable competitive advantage from premium pricing and quality. By focusing on this first to establish a foothold against global competition in home

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markets, internationalization is the next logical step, but on a much firmer footing than before.

Comment

The article "Uncommoditizing strategies by emerging market firms" by Cuervo-Cazurra *et al.* (2018) is a seriously impressive work. It is a big article, but there is a huge amount of detail on firms in Brazil, Mexico and other major Latin American companies that go a long way to provide answers as to why some of these firms are emerging to be major global players. For any manager in Latin America, or one for a global player nervous about increased competition from these markets, the article in full is a must-read.

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Competitive advantage

Reference

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