FROST & SULLIVAN
Growth, Innovation and Leadership eBulletin
A quarterly eBulletin from the Growth Thought Leadership Team who bring you
GIL Global – The Growth, Innovation and Leadership Global Congress on Corporate Growth
March 2009 Vol 2/Issue 1

EXECUTIVE INTERVIEW

Frost & Sullivan's eBulletin Editor, Erin Lindholm, recently caught up with Nick Pinchuk, Chief Executive Officer of Snap-On, Inc., to discuss best practices for operating in the global marketplace, selling refrigerators in Asia and Snap-On's strategy for exiting the recession ahead of the curve.

Erin Lindholm: In your keynote address at last year's Growth, Innovation and Leadership Global Congress, you offered a lot of guidelines for companies operating in emerging markets. What is the no. 1 rule for successfully operating in the global marketplace?

Nick Pinchuk: In my mind, if you're going to ask for the no. 1 thing you'd better know, it's actually quite simple. You have to have a clear view of who you are as a business operation. And what I mean by that is you have to know your special capabilities, how they might add unique value and to what general type of customers will they be decisive. Because when you go from market to market, there's a lot of variety and there's a lot of attractive customer segments. You can get drawn into pursuing a number of claimed customer bases that are not really occupying your natural space. And at the same time, those customer bases are not congruent jurisdiction to jurisdiction. An integral part of your success is identifying where your natural operating space is and understanding who you are as an organization. A good sense of that, a really confident sense of that, is important in projecting yourself.

An example for Snap-On might be that in the United States our primary target is the automotive technician. He's the main purchaser of the product and it's a retail-type sale. But in a place like in the continent of Europe, the technician has little purchase influence. The guy who gets the most value from what we sell in Europe is the shop owner, not the technician. And you have to be aware of that. We could be deluded into thinking that what we do best is deliver a product through the vans and a retail environment, and that would lead us down the wrong path in Europe. Really what we do best is we provide unique solutions to professionals that do a critical task. We provide a productivity-enhancing solution; it's not how it's delivered. It's how you add value. That defines your natural space.

EL: What else can a company do to be proactive, rather than reactive, in emerging markets?

NP: The most decisive activity in emerging markets, once you've decided where you want to operate and so on, is to build physical capabilities. It sounds deceptively simple, but many companies want to have the return on physical capabilities they put in place before they've actually put them there. This doesn't work in emerging markets. So I think having a number of salesmen, a service network, customer support, the warehouses, usually local production and design — they're all crucial in penetrating the emerging markets.

In the geographies that are emerging the companies that generally have the largest number of salesmen generally has the largest share. But it's not a result of, it's causal. In emerging markets the physical is not the means to capture share, they represent share themselves. So you want to get the most capable salesmen because there just aren't many of them. You want to get the most points of service because there's not many of them. You want the factories because there aren't that many of them. So there's a battle for those physicals. You have to believe, "If I gain more physicals I'll capture more market share."

EL: On the flip-side, what's one of the biggest mistakes companies make when they enter emerging markets?

NP: I think sending inexperienced people. There's a tendency to send — to use an American expression — young whippersnappers. If you step back for a minute, that's not logical. Emerging markets, where you have to establish everything, are challenging and too important to be used as a training ground. All the things we take for granted have to be established — it's a very challenging situation not for the faint of heart. So, no. 1 is, because it's challenging and because it's important, you have to send your best.

Second, the people who you recruit are judging your company based on who you send to represent you. And smart is not enough. Smart they've got. You have to send a seasoned executive. I think the biggest mistake is to choose a capable young person, and say, "Why don't we give them some training?" and send them off to Asia. One, they have trouble. Often it's beyond their caliber in their career at that point, and two, their partners, the government, their clients, are judging them.

EL: With the sophistication of communication technologies these days, how easy it is to pick up the phone and call someone halfway around the world, sometimes it really does seem like the world is a very small place. What is your take?

NP: The world might be flat, but it's not the same. There are differences from market to market that still remain, and I think it's absolutely essential that you recognize them and address them.

For example, from my days working at Carrier, in North America large refrigerators are the order of the day. But in Asia small units are popular. And the reason is because space is limited in the apartments. Groceries are bought and transported by walking ore public transportation. Not that many people have delivery notification vehicles called cars. So you're not going to sell these big refrigerators in big amounts, you're also not going to establish big supermarkets. People aren't going to want to go very far from their home to get their groceries.

The examples of that are legion. The lesson here is just that emerging markets are aware of the preferences of developed countries that doesn't mean that they'll embrace them. That's the important difference. Countries like China, India, and even cities like Beijing and Shanghai have their own preferences. And they have the population and the scale to demand it.

EL: How can a company that operates on the international level best prepare for the inevitable economic slowdown?

NP: The emerging markets are going to be impacted somewhat by the downturn; of course, you're already seeing that in Eastern Europe now with the drop of oil prices. I say this: The company that wishes to succeed in these areas over time had best prepare a certain standard measure of perseverance for the present day. Beginnings are vulnerable times and it's tempting to curtail or withdraw in the current situation. But I assure you that would have long-term implications. Your constituencies — whether they're customers, or suppliers, or distributors, or employees, or governments — in aligning with a company they all commit a certain amount of their economic future to you. And the last thing they want to see is to see you have second thoughts when things get a little tough, if you give them the impression that you're not dependable, it'll be difficult to maintain their support as you go forward, and *tough* to regain later.

The important point that I think here is, in this downturn, if you believe your future is in the emerging markets, whichever they are, you had better keep a level of perseverance in those markets even while you're suffering elsewhere. I believe this is more crucial than any segment you're in, actually. Because these countries have seen companies come and go in cycles not quite as wild as the one we're in now, and it hasn't played out favorably.

EL: What growth goals does Snap-On have for 2009?

NP: [Automotive] repair is going to continue and we see that. However, there are other things we sell that might be more discretionary, like a lift for a garage, or a new tool box for a technician. And so we're going to be impacted somewhat although we have a solid base and we are confident that we are going to come out of this recession in roughly the same industry as we came in.

Our task is to limit the damage in the near term and identify a few strategic areas where we are confident that an advantage in those areas will be decisive going forward. And we're going to invest in those. If you think about what we're going to do to limit the damage, we're going to do what everyone does, which is drive the productivity cycle and improve our cost base. That's one thing. Second, we're going to keep pushing innovation. Because what we've found in this market is innovation still sells. In our particular area, if you give someone something new, they buy it. So our new products are breaking records even in this environment. I think that will at least make the best of our current situation.

And then, what we're going to do is, recognize that we have opportunity in this crisis and put it to use. And one of the areas we're going to be investing in is emerging markets. We're building another plant right now in Shanghai. We're adding more sales offices this year. We're transferring more products into the China area, and Belarus we're building another plant right how. … And finally, Snap-On has traditionally been an automotive repair company. And what we find is — this is full circle — "Who are we?" We are not an automotive repair company; we are a company who provides a valuable productivity solution. And that means there are other industries who will buy our tools that we haven't accessed so far. We consider ourselves a provider of unique solutions to serious professionals, not to consumers or amateurs, for critical tasks. And people who do critical tasks are in industries like aerospace or alternate energy, like mining or military applications. Those kinds of things. We're rolling the Snap-On brand out of the garage. We believe if we invest in those places we'll come out stronger.