Western drugstores—and began training hairdressers (twenty thousand per year) to use its products in salons.

Excellence Crème and salon products helped L'Oréal's India operations attain profitability starting in 2004. After establishing a successful foothold in the emerging middle-class consumer segment—a demographic that continues to grow in India—L'Oréal reintroduced products aimed at the local segment with its improved brand image. Still, according to the L'Oréal executive who oversaw the company's strategic shift in India, "We don't do poor products for poor people."[30] When a large share of a market such as India remains poor, however, the company discovered the importance of targeting particular segments. Although different multinationals can find different opportunities in emerging markets—as shown by, for example, Hindustan Unilever's success at the bottom of the market in India—L'Oréal found success only after it replicated its global model with customers who could afford to pay global prices.

Organizational Adaptation

Developed market-based multinationals need to consider not only adapting their offerings to local needs and preferences in emerging markets but also adapting their organizations to the business demands and institutional contexts of the emerging markets in which they operate. Adaptation can be a painful process for multinationals. Modification of products, business processes, and organizations can create organizational tension and stress a multinational's core value proposition. An in-country operation might anticipate big growth opportunities from a modification that headquarters sees as eroding the company's global brand. Alternatively, headquarters, desperate for growth, might expect too much from a product not tailored to the emerging market. The leadership of multinationals that invest and operate in emerging markets needs to think clearly about what in the company's business model is open for modification and what is off the table—while understanding that the first time is very rarely the charm in these markets.

In light of these tensions, multinationals need to align their organizational structures and reporting lines with their strategies and goals for specific emerging markets. The organizational structures of subsidiaries in various emerging markets often evolve independently, with varying degrees of connection to headquarters. Connections between local subsidiaries and headquarters reflect priorities, but they can also impact performance. Emerging markets share common characteristics, and multinationals are well served by facilitating the transfer of knowledge about them across their organizations.

Motorola's organizations in China and India, for example, reflect the variance in subsidiaries within multinationals. Motorola's top management cultivated close ties to China's top political leadership as it invested heavily in the country. As a result, the company's headquarters was closely and directly involved in its China operations. The reporting lines of the company's India operations, by contrast, wind through Singapore, and Motorola's presence in the market has developed more slowly.[31]

The scale of opportunities in China and India pushed Microsoft to adapt its organization. The company's Greater China and India operations were made subsidiaries independent of regional operations, reporting directly to headquarters. In addition, Microsoft established teams (the Emerging Segments Market Development Group and Market Expansion Group) based at its headquarters devoted to emerging markets more generally. These teams were devoted in part to helping the company fulfill the goals of the Beijing Declaration, an initiative announced by Bill Gates in 2007 to help expand global computer access dramatically from 1 billion people in 2007 to 2 billion in 2015. The scale of such an initiative and Microsoft's unprecedented organizational response reflect the company's deep commitment to building its business in emerging markets, because these markets—even in the face of such contextual challenges as piracy (as we discuss later in this chapter)—will be critical to its future.[32]

Similarly, U.S.-based Cisco decided to establish its Globalization Center East in Bangalore, India, in 2007. The center is slated to house one-fifth of Cisco's top executives and ten thousand employees by 2011.[33] The importance of emerging markets should also be reflected in the composition of multinationals' senior management and boards of directors. One large German multinational's CEO noted concern over the lack of