

# Affordability and robustness are key

As emerging markets account for an increasing proportion of demand in the rail sector, we asked our expert panel what product characteristics are most important for success in such markets.

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While the long-standing and mature rail markets in Europe, North America, and Asia remain important for the global supply sector, much of the growth in demand for rail technology in recent years has come from new or under-developed markets.

Railway networks are under development or expanding in regions with little or no previous experience of the mode, notably in the Middle East as well as parts of Africa and Latin America. In these areas, customer requirements are often shaped by severe climate or terrain, while the legislative restrictions may differ significantly from those in established railway markets.

Over the years, many industries have adapted their products to meet the specific requirements of emerging markets, with examples ranging from cheap, portable ultrasound devices and robust, solar-powered radios to specially-enriched foodstuffs to fight malnutrition. But how far must railway equipment suppliers adapt their products and services to win business in these potential new markets?

We proposed a range of potential attributes or characteristics for railway products and services and asked our panel of senior executives across the railway supply sector to select the three which they felt were the most important for doing business in developing markets.

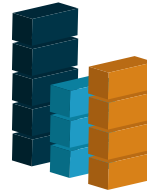
## Clear priorities

The survey results are shown in Fig 1. These rankings are based on both the number of respondents selecting each attribute and the average values for the level of importance that they gave it.

Without any doubt, the most important factor is price. Almost 60% of our respondents selected affordability as the single most important product characteristic and very few respondents did not consider affordability as one of their top three attributes, making it the clear priority. Growing competition from low-cost manufacturers around the world and the limited financing available in emerging markets is being reflected in lower prices.

The second most important attribute

## RAIL SUPPLY INDUSTRY WATCH



To find out more about the survey and apply to join our panel, visit the RSIW website at: [www.railsupplyindustrywatch.com](http://www.railsupplyindustrywatch.com)

selected by our panel is a high degree of local content. Not only do suppliers have to adapt their products to meet the local requirements, they need to incorporate a large amount of local content and often design the products to permit local manufacturing under some form of technology transfer agreement. Around 20% of the respondents ranked this requirement as the most important attribute, while one in three ranked it in second place, giving a high combined score.

Reflecting the severe environmental conditions prevailing in many emerging markets, the survey ranked robustness as the third most important feature. Not only must products withstand potentially harsh climatic conditions or difficult terrain, they need to perform reliably under rudimentary maintenance regimes, where the necessary procedures are still being put in place or have little local knowledge to draw on.

The next two options — functionality and user-friendliness — achieved a very similar score, but growth potential was not seen as significant, receiving only one vote. Another factor considered important by some respondents was the ability to deliver turnkey packages for emerging markets, allowing customers to source a broad range of products and services from a single supplier or consortium.

## Export focus

Judging by the survey responses, products have a better chance of success

in emerging markets if they are less complex, allowing them to be sold cheaply, manufactured locally with a high level of expertise and sufficiently robust to withstand difficult surroundings.

Generally, when developing products for emerging markets several factors need to be taken into account. To enter these markets successfully, the products need to be tailored to focus on the main requirements and omitting unnecessary features not valued by potential customers. This in turn means developing a deep understanding of the target markets. A clear branding and sales strategy is also required in order to leverage the strengths and experience of the company while not cannibalising existing products and services.

In line with the affordability and localisation requirements identified by the panel, local supply chains and production capabilities must be developed, both to meet the cost target and to incorporate the required local content. And last but not least, companies need to establish an internal mindset focused on addressing the requirements of developing markets rather than those of more mature customers.

European supply industry association UNIFE continues to emphasise what it sees as an 'uneven playing field' in public procurement at the international level. As its Director-General Philippe Citroën points out, 'many jobs in the EU are heavily dependent on rail supply exports. Emerging markets provide an important opportunity for European suppliers, who are capable of supplying competitive products to these markets, but important local content requirements must be carefully assessed. So the export-oriented European manufacturing industry is evolving rapidly in a world of increasingly fierce competition with overseas producers.'

- A** Affordability (economically-priced products which offer good 'value for money').
- B** Local content (products tailored to local requirements and suitable for local manufacture under technology transfer arrangements).
- C** Robustness (sturdy products which are easy to maintain).
- D** Functionality (straightforward product capability, focused on key features).
- E** User-friendliness (easily understood and simple to use).

