An interview with Jesse Wu, Worldwide Chairman, Johnson & Johnson Group of Consumer Companies

About two-thirds of Johnson & Johnson's consumer business is now outside the US, and the company expects to see continued higher growth rates in markets outside the US than in it over the next several years. McKinsey's Martin Dewhurst and Tracey Griffin spoke with Jesse Wu. The worldwide chairman of the company's consumer group, Jesse Wu was born in Taiwan and spent most of his career in Asia and in this interview talks about how Johnson & Johnson integrates its acquisitions, how companies can ensure that more executives from emerging markets have opportunities to join global leadership teams, and why global companies are better at allocating capital than their local competitors.

Martin Dewhurst
Tracey Griffin

McKinsey: *How does Johnson & Johnson think about which products sell in emerging markets?*

Jesse Wu: Right now, I believe our products are more suitable to the middle-income consumer than the bottom of the pyramid, and we have learned over time that reaching out to middle-income consumers is actually very efficient. You can use an attractive premium brand to expand reach and grow revenue, for example, by offering the product in a smaller size to help consumers reduce out-of-pocket cash. You have to be careful, though, because once these premium brands go mass market, it can start to erode brand equity with higher-income consumers. It's also important to have a brand aimed squarely at the mass market, which is why we acquired Dabao in China; the brand has grown and become important to our business there. In the longer term, a midmarket brand will return more without the risks of expanding an existing prestige brand.

Another pitfall to watch out for is complexity—if you're not careful with complexity, you can create a less profitable business. Emerging markets add volume, but as you expand variants, you're also adding complexity to the supply chain, marketing, and other facets of the business, which can lower margins. Complexity plus lower margins can have unintended consequences if you're not very disciplined in your approach.

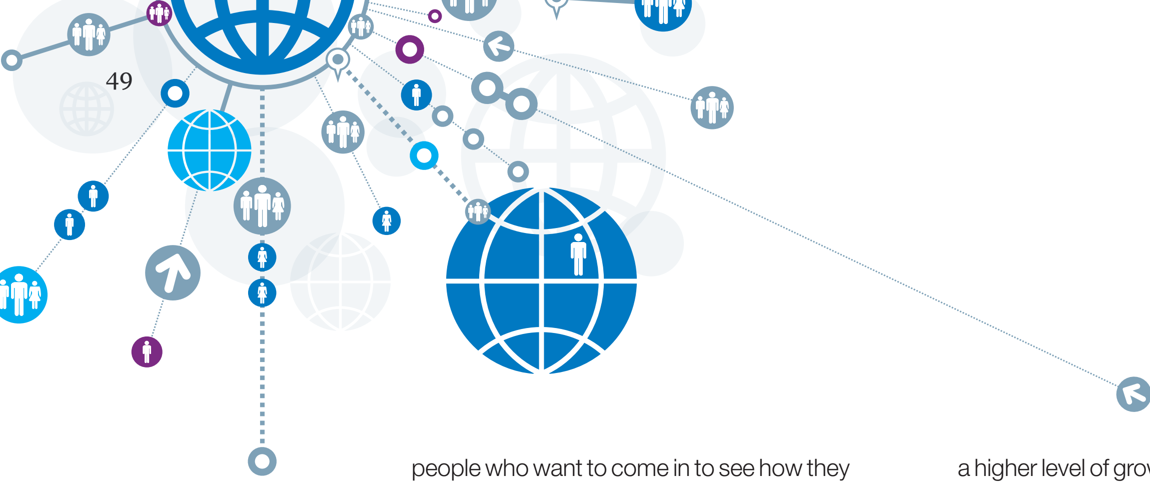
One important point to always keep in mind in emerging markets is that, just like consumers everywhere, emerging-market consumers are looking for good value, but they don't want "cheap." As we've expanded our lines to reach more consumers in the middle of the pyramid, we've been careful to keep product quality as high as in our higher-end brands. I always tell our new-product development teams, "Don't touch the juice." It's one thing to offer the same quality product in a smaller size, but what you don't want to do is offer a lower-quality product. That can kill brand equity quickly across the product line.

McKinsey: *How does Johnson & Johnson manage integration?*

Jesse Wu: When we do an acquisition in an emerging market, of a brand or a small to midsize company, we generally keep that operating company separate and decentralized. We try to protect its business model—large volume, fast turn, little advertising, whatever. I always remind people that the reason we bought the brand was because it was successful. The danger for an acquirer is that it's easy to come in and say, "We want better distribution. We want more advertising. We want better margins." But then you end up forcing the operating model in a different direction, which wouldn't be wise. The key is to understand fully the model you've bought into first. Only then, maybe after two or three years, can you start to think about making changes to the model. If you change the operating model too quickly, you also lose out on an important learning experience that may hold lessons for other brands and markets in your portfolio.

As for integration, we first empower the local team to manage the acquired business and follow the established business model. We normally see good results, and then we start thinking about integration. Some people argue it's more expensive upfront, but I think that knowing the intricacies of the company you acquired generates more growth down the road.

We go as far as to ask specifically for approval for visitors to the newly acquired company, particularly people from our internal functions. We do this to protect the acquired business from being overwhelmed by well-intentioned



people who want to come in to see how they might add value but who may not be adding to the immediate business priorities. I continue to believe that one of Johnson & Johnson's strengths is that we always operate better, more nimbly—and we're better informed—than our competitors on the ground because of our decentralized empowerment culture. It's important to empower the local team or region so that we don't have to give all of the instructions from the center.

However, we have also learned as a highly decentralized company that if you're not careful, you can end up with a fragmented approach—for example, different IT systems in different countries. So we've said, "OK, certain things are not going to be decentralized anymore," like strategy for the brands. We're also trying to build consensus on growth drivers for the future and determine which geographies to focus on, so that the role of the brand and role of the market become clear. You'd be surprised by how something so basic is not always as easy as it sounds.

McKinsey: *As a leader of a global company who spent most of his career in emerging markets, how do you think companies should meet the challenge of having enough leaders with local knowledge?*

Jesse Wu: The US is a very important market, but the US is not *the* market. If all the global positions are based there, over time you will be overly influenced by the US. Given that growth is going to come from Latin America and Asia, I advocate putting global positions in the growth markets or growth regions to make it easier for us to hear the voice of our future customers. For example, we've moved key global franchise and R&D heads to emerging markets. This is probably a "test and learn" model, but I think it will generate a higher level of growth and help the rest of the world understand what the challenges are.

Leaders' mindsets are very different. When you're running an emerging market, for example, you always operate under an austerity model. When you've been operating in emerging markets and come to the US, you become aware of the little things, like how much people use color printers for internal documents. All these little things add up. Everybody's happy with emerging-market growth, but there are implications for technology, investment, talent, and so on. Emerging-market growth necessitates a lot of changes worldwide, not only in emerging markets. Our job is to prepare for that, so that a couple of years from now we will have made the mindset changes to accommodate where our growth is.

Talent is an issue that anyone with a global business needs to be concerned about. On the one hand, US talent over time seems to have become less mobile than executives from Europe, Asia, or Latin America. We need this to change. On the other hand, if you look at talent in other global markets, particularly in Latin America and Asia, many leaders are very good at a local level but struggle a bit when they start to have regional responsibilities. Among the reasons for this are having to use English as a business language and having to adjust to extensive travel to conduct business. It takes dedicated training and patience to be able to put local talent into regional and global roles. But in the end it's worth it, because once you can pick someone from Russia or South Africa, you have an expanded talent pool that's much more attuned to thinking globally and that's in touch with the needs of various kinds of consumers. We've been moving talent recently between the US and other markets, in both directions, and we'll be doing more of it in the future. Only when you're proactively moving talent around the world will people realize that there isn't just one operating model that works.

Jesse Wu

Vital statistics

Married, two grown children

Education

Graduated with a major in Economics from National Chengchi University, Taiwan

Received his MBA from Duke University

Career highlights

Johnson & Johnson Group of Consumer Companies (1989–present)

Worldwide Chairman, Consumer (2011–present)

Company Group Chairman, Global Markets Organization

International Vice President, Asia-Pacific (2003)

President, Greater China (2000)

Finance Director, China

Finance Director, Taiwan

Fast facts

A recipient of the Magnolia Award from the Shanghai municipal government, given in recognition of his contributions to Shanghai's development

Sits on the board of directors of the Consumer Goods Forum, a global industry network of more than 650 retailers and manufacturers

If you aren't very, very careful with talent development it's unlikely that your growth is going to be sustainable. When I have multiple opportunities to invest in, I would choose to invest where we have a strong local team; in practice, this has directly affected our business decisions.

McKinsey: *If talent is still a huge challenge, is there any area in which you see global companies having an edge over local competitors?*

Jesse Wu: In our industry, brands are important—people in India, China, and Russia have heard of multinationals' brands and have a strong desire for them. Beyond that, I believe that multinationals allocate capital more efficiently, so long-term we compete better. Capital efficiency is critical to sustaining a company, which is why Johnson & Johnson has lasted over a hundred years while others come and go. A local company that starts small and establishes some level of success, and then all of a sudden can go public at a price-to-earnings ratio of 30 to 50, would tend to think that capital is relatively easy to get. More established companies, over the years, always look at the return on investment—whether it's an acquisition, machinery, or new technology—so we tend to allocate our capital more efficiently. I think that will continue to be a relative competitive strength for multinationals.

Martin Dewhurst is a director in McKinsey's London office and **Tracey Griffin** is a director in McKinsey's Washington DC office.