Global Marketing Management
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Lecture – 37
Marketing in Emerging Markets– Part I

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Welcome to Global Marketing Management and now we will talk about marketing in emerging markets which is spread over in module 37 and 38. So let us start with module 37 and we will be talking about how to market in emerging markets, what is marketing like in emerging markets.

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So we will be talking about what are Emerging Markets and what to do in order to compete with the new Champions targeting positioning strategies in the in the Emerging markets ,whether we should talk about below or bottom of the pyramid, or not no bottom of pyramid, and we will also talk about the Entry strategies for emerging markets. So enter entry strategies may differ in emerging markets in developed countries and in developing countries.

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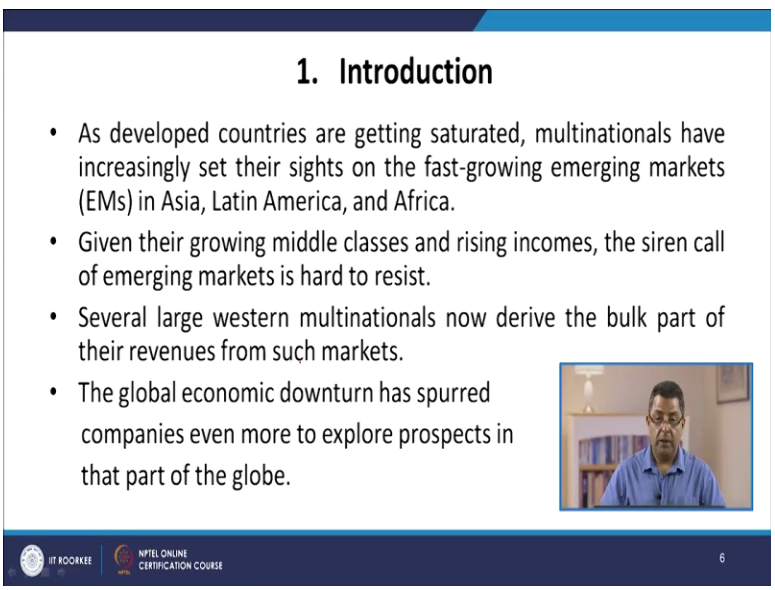

So as developed countries are getting a saturated, saturated means that most of the population, they have purchased lots of products, and now they are not buying those products anymore. What to do? Multinational have increasingly set their sights on the fast growing emerging markets in Asia, Latin America and Africa. Now you see that their, their home markets are saturated, and then they are looking for newer markets, and they are finding potential in emerging market that are largely in Asia, Latin America and Africa.

Given their growing middle class, because, the middle class is going in this, in these emerging markets and the incomes are rising. This call for emerging market is this call for emerging market is hard to resist. Although there are lots of problems in emerging market but because of the rising middle class and rise in income they are a potential market, attractive lucrative markets, for multinationals.

Several large western multinationals now derive the bulk part of their revenues from such markets. That is, most of their revenues and profits are coming from emerging markets and not from developed markets. The global economic downturn has spurred companies, even more to explore prospects in that part of the globe. And because of the economic downturn, which is more, which was more, and which is more prominent and developed countries.

So, now that has forced this multinationals that has further forced the multinationals to look for markets in emerging countries.

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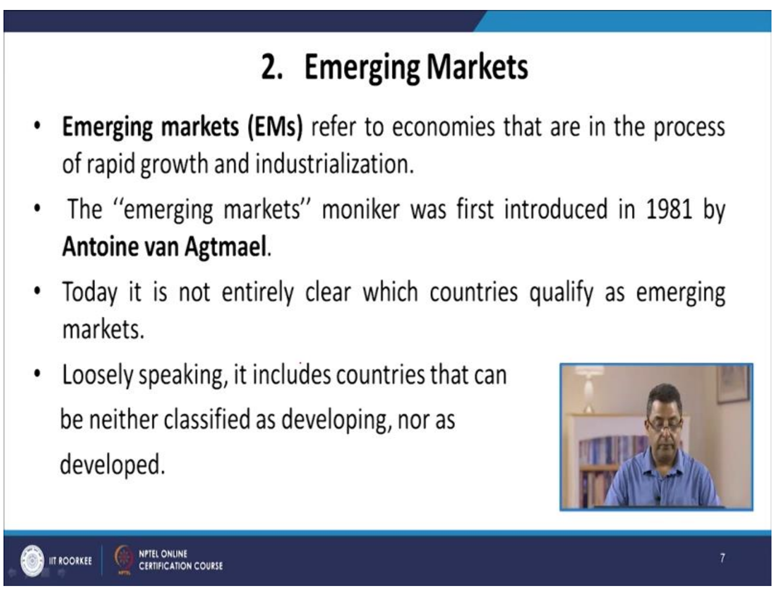

What is an emerging market? It refers to the economies that are in the process of rapid growth and industrialization. So we are talking of Economy, Economies that are in the process, was the process completed they successfully, then they become developed market, if the process is a failure then they remain under developed markets. So this emerging market moniker was first introduced in 1981 by Antoine van Agtmael.

Today it is not entirely clear which countries qualified as emerging markets. So based on this process of rapid growth and industrialization, it is difficult to categorize countries whether they are emerging or not. But loosely speaking, it include, countries that can be neither classified as developing nor as developed, so they are somewhere in between. But this strict categorization is difficult.

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Among the emerging markets, for many global marketers, the most promising and exciting ones are the four that constitutes the BRIC namely, Brazil, Russia, India and China. Another term that is gaining some importance is, transition economies. So one is emerging economies, which has and which largely includes the BRIC that is, Brazil, Russia, India and China. Another term item is coming up that is called as transition economies. So countries that are changing from centrally planned economy to a free market economy. So where in those countries where that were centrally planned and now they are process of liberalization is happening. So these countries are termed as transition economies. Transition from centrally planned to free market.

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Let us see what are the characteristics of a emerging market. So we have defined that emerging market is this process they are going through a process of rapid growth and industrialization but what are the characteristics of these kinds of markets? The first is low per capita income but rapid pace of economic development. So, per capita income are still lower in most emerging markets, than they are in developed nations. Low income poses an upper limit on their purchase, because their disposable income is less.

But the income in most of these countries are increasing, leading to a strong and growing middle class population, but because, the incomes are increasing that is why disposable income will increase and therefore they are now becoming more lucrative because now you have issues middle class have in increasing disposable income so that is that because lucrative for multinationals, who have already faced stagnation and saturation in their home markets.

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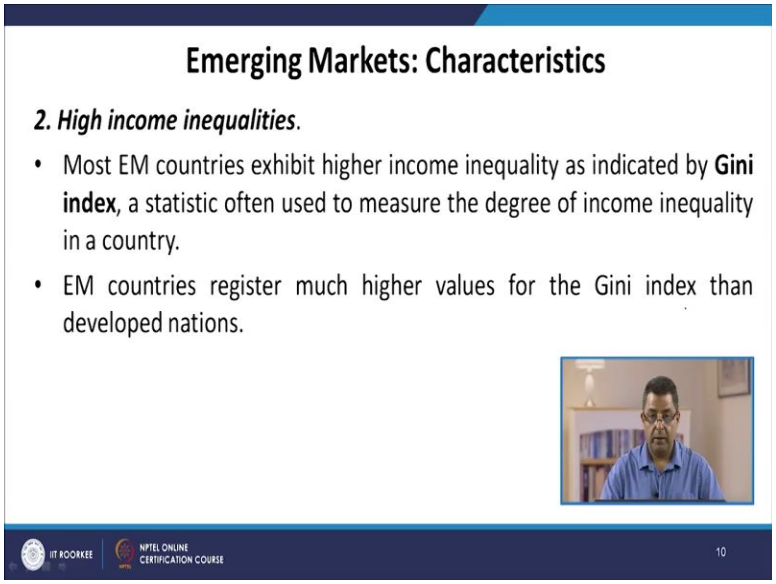

The second characters characteristic is High income inequality. So there is income inequality, huge income inequality. In most emerging countries they exhibit higher income inequality as indicated by the Gini index that is statistics often used to measure the degree of income inequality in a country. So degree of income inequality is higher in emerging markets and it is being measured by Gini index. Emerging market countries they register much higher values for the Gini index then develop nations. So when this Gini index is higher so the income inequalities higher, if it is lower than the income inequalities, lower.

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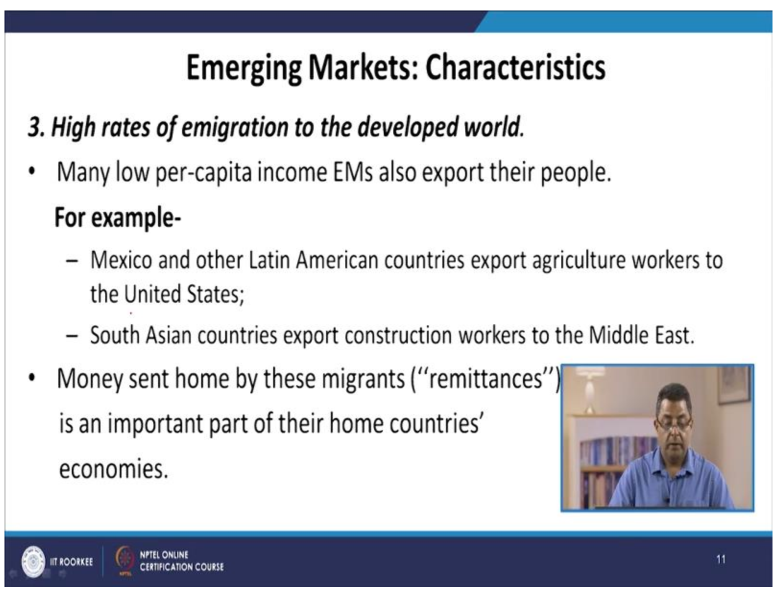

The third characteristic is high rate of immigration to the developed world. Lots of people are moving from the developing the emerging markets to developed countries. So that is another characteristic. Many lower per capita emerging markets also export people export their people. So they may be, there that so they are exporting their people, maybe they are going to fall to develop country, then earning money and sending it back home. For example, Mexico and other Latin American countries export agriculture workers to the United States. So people who do agriculture in the United States they come from, who works in the fields in US they work from Mexico and other Latin American countries.

South Asian countries export construction workers to the Middle East. So, lots of people go from Southeast Asia to Middle East for working as construction workers. Now money sent home by these migrants. So they go overseas to work and then they send the money back home which is called as remittances, is an important part of their home countries' economy.

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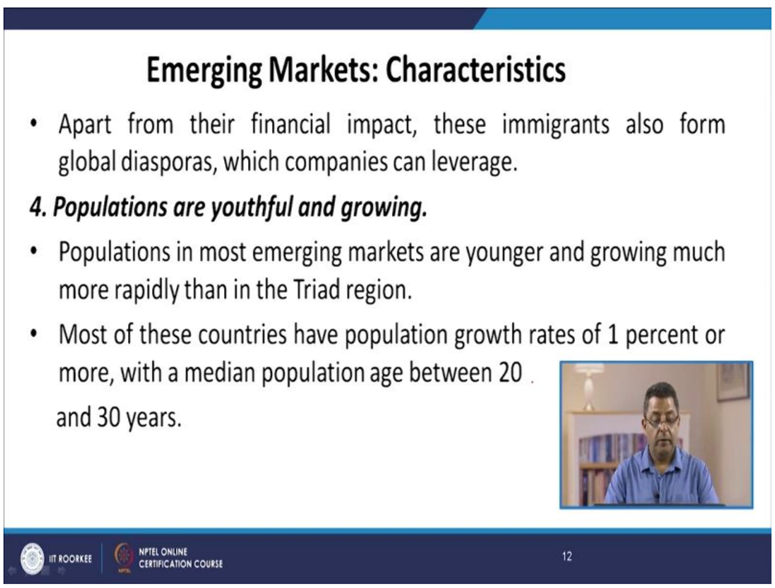

Apart from their financial impact, these immigrants also form global Diasporas, where, which companies can leverage so, Indians in Qatar so that forms a market. The fourth characteristic is population as useful and growing populations in most emerging markets are younger and growing much more rapidly than in the Triad region. Most of these countries have population growth of 1% or more with the median population age between 20 and 30 years.

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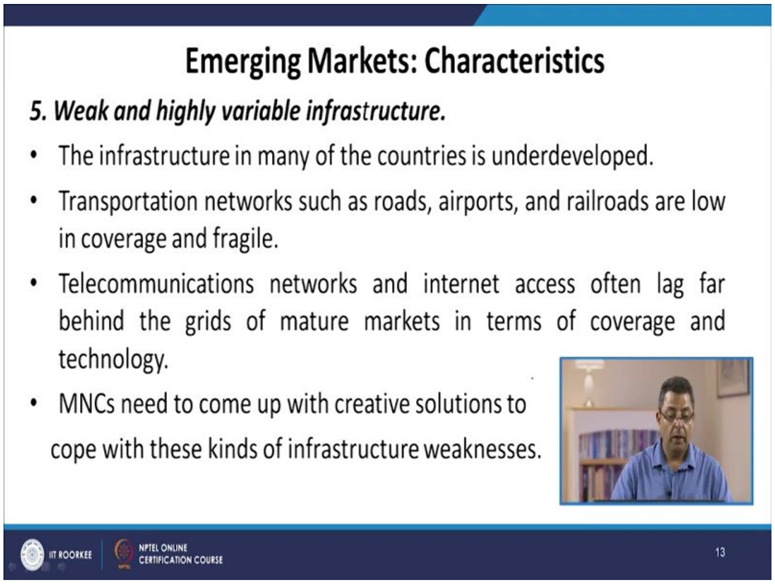

The fifth characteristics is they have a Weak and highly variable infrastructure. The infrastructure in many of the countries is underdeveloped. Transportation networks such as roads, air airports, and railroads are low in coverage and they are fragile. That is they are not able to handle much traffic. Telecommunication networks and internet access often lag far behind the grids of mature markets in terms of coverage and technology.

MNCs need to come up with creative solutions to cope with these kinds of infrastructure weaknesses. So although we have a huge middle class middle class income with increasing income disposable income the population is also increasing but there are several infrastructure issues that the multinationals have to, have to cope up with.

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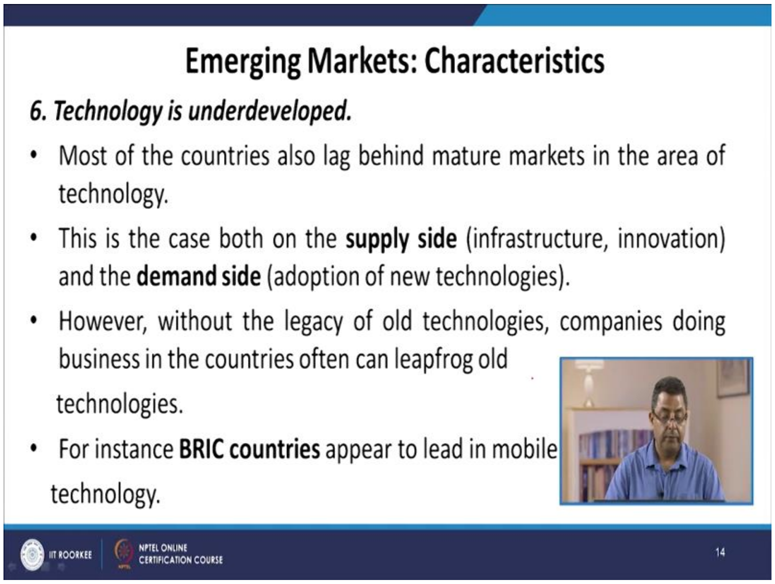

Another characteristic is that Technology is underdeveloped. So most of the countries they also lag behind mature market in the area of technology. In the case, both on the supply side that is the infrastructure and innovation and demand side that is adoption of new technology. So this is underdeveloped for both on the supply side and the demand side.

However, without the legacy of old technologies, companies doing business in the countries can offer leapfrog old technologies. But the silver lining or the good part is that, the company can easily shift from older technologies to new technologies. For instance, BRIC countries appears to lead in mobile technology, so because, because in BRIC countries, the landline telephone conversation was already less, so it was easier for them to shift mobile technology.

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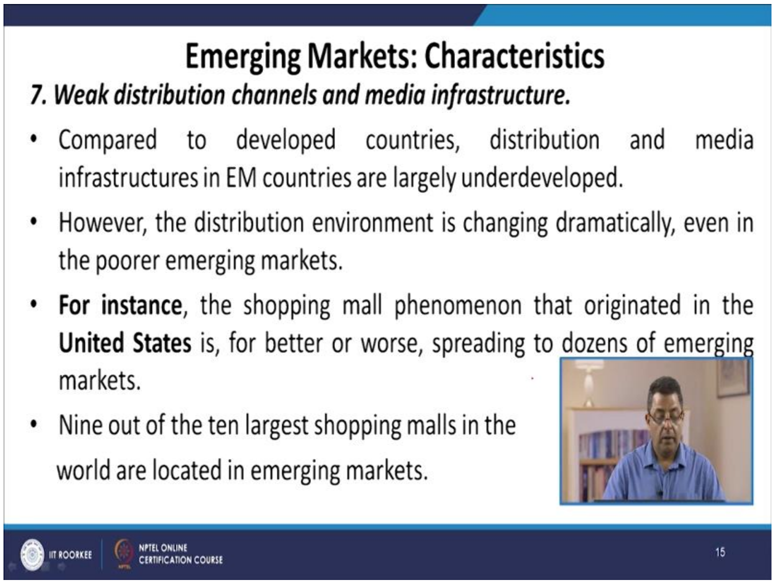

Another characteristic is Weak distribution channels and media infrastructure. So compared to developed countries, distribution and media infrastructures in emerging markets are largely underdeveloped. However, the distribution environment is changing drastically even in the poorer emerging markets. So now you see that in emerging markets the distribution system and the media infrastructure they are weak, but they are developing. There they are weak but but the governments are making efforts to develop them. For instance, the shopping mall phenomena that originated in the United States is, for better or worse, is spreading to dozens of emerging markets.

So now this is, this phenomena of shopping mall that was developed in United States, is for good or bad, it is expanding. Whether it is good or bad is not the issue but it is expanding. Nine out of ten largest shopping malls in the world are located in emerging markets. So all those of the phenomena is started in United States but the largest 9 out of 10 of the largest shopping malls, they are located in emerging markets.

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A more recent phenomena has been the steady but undeniable emergence of strong local companies also. Several of the firm, several of these firms have been able to prove their mettle in competing with the large multinationals in their home country. So now these multinationals, they have come to emerging markets, but the companies from multinational they are also becoming global and they are also given tough competition to the multinationals from outside.

For example, Jollibee, a so called new champion, is a company created in an emerging market that has been able to law, able to humble multinationals. Similarly Patanjali, so you will find that, it is the new champion, and it is given tough competition to HUL and P&G. Now dozens of the new champions, have also become, credible challengers outside their home markets.

So they have also now expanded abroad and they are given tough touch challenge to the multinationals in their home country also. For example, Taiwan based HTC at one point in time and Acer. Then you have several brands from Korea, giving challenges to to brands from Japan. So Samsung may be challenging the success of Sony not only in Korea but also in Japan.

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Now what are the strategies that the new champion employs to stave off multinational companies? So Bhattacharya and Michael have identified the following strategy that makes emerging markets firms so successful. The first is that, they create customized offerings. So, savvy local companies often have built up an intimate knowledge of their customers, because they have been operating for a long time so they have lots of knowledge about the customers. And on this, on based on this knowledge, then they develop their offerings which are customized for the local markets, by leveraging their customer information these firms have been able to develop customized products or services that appeal to their clients.

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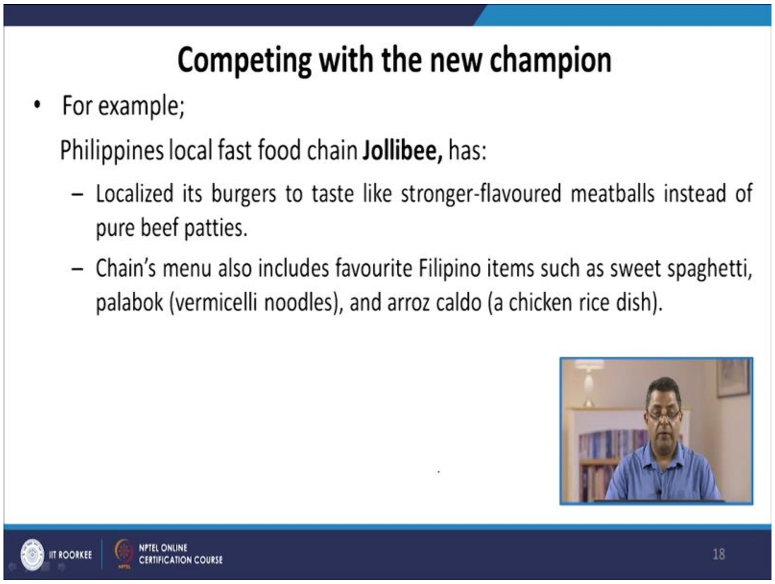

For example, Philippines local fast food chain Jollibee has, localized its burgers to taste like stronger flavored meatballs instead of pure beef patties. Chain's menu include favourite Filipino items such as sweet spaghetti, palabok and arroz caldo.

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The second is that they Develop business models to overcome obstacles. So, local champions are adept in identifying key challenges and then developing business models to surmount them. So they are because, they are, they are more local in nature, so they are able to identify the challenges more easily, and more thoroughly, and then they develop business models, business model, so so that they are able to overcome those challenges.

For example, computer gaming industry in China for companies such as Sony and Microsoft, product piracy is a key challenge in China. Shanda and other Chinese players have developed a thriving business by developing multi multiplayer online role-playing games where the issue of piracy is not important.

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Then they deploy latest technologies. So local players in emerging market are not hampered by the legacy of old technologies and can leapfrog to the latest technology, because they did not had they were not using technology, now they have, they have the chance, to buy new technology and adopt them. While the multinationals they were already using a technology that has gone old, so they have to first, do away with text with their technology and the process is related to those and then biotechnology and develop used and adapt to that technology and develop process for using that technology.

So this helps to keep the operating cost low and provide good quality products and services Safaricom is Kenya's leading mobile phone service provider developed a mobile banking services called M PESA, that is mobile pesa, that allows clients to transfer money via SMS and handle their mobile phones as an electronic wallet.

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The forces that we take advantage of cheap labour and train their staff in house so labour cost in most emerging markets are still much lower than they are in the developed countries. Many of these new champions have developed business models that leverages the cheap labour cost advantage in their home country, so their business models are more labour based and because the labour is cheaper so that, that gives them the huge cost advantage.

They are more capable in dealing with bare minimum fare of resources than their rivals from the developed countries, a skill that Carlos Ghosn, the head of Renault Nissan describes as frugal engineering. So they can survive on minimum resources and also come up with new products.

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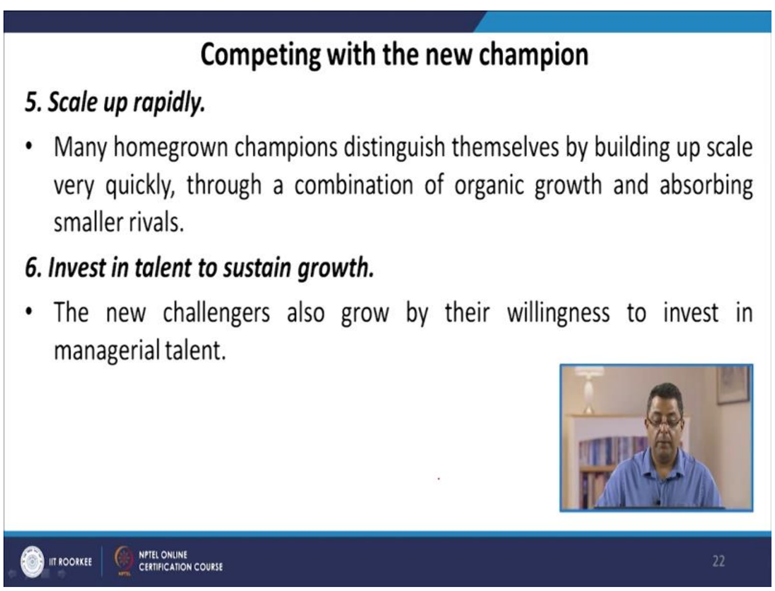

Then they have the ability to scale up rapidly. So many homegrown champions distinguish themselves by building up scale very quickly, through a combination of organic growth and absorbing smaller rivals. So, that increases their scale very rapidly because they are growing internally and also acquiring. The next is that they investment talent to sustain growth.

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The new challenges also grow by the willingness to invest in managerial talent, how to go about positioning for emerging market champions. Now how this emerging market companies should position themselves. A challenge that the emerging market champions face is whether they should focus on their home markets or expand into global markets. This is always a challenge for many companies, whether to continue to focus on the home markets.

And when if possible to expand in global, global marketplace deciding which strategy to pursue hinges on the following two parameters, so whether to focus on the home market or to expand into global market, that is depends on two parameters, the first is the strength of the globalization pressures so if the strength of globalization pressure if the Global globalization pressure is used and obviously they will have to use the second step.

The degree to which company assets can be transferred internationally, so if the, if the globalization pressures are huge, and the company is able to transfer the assets internationally, then obviously they should expand to the global market, otherwise they should still continue to focus on their home markets. So combining these two parameters generates a set of four strategic options.

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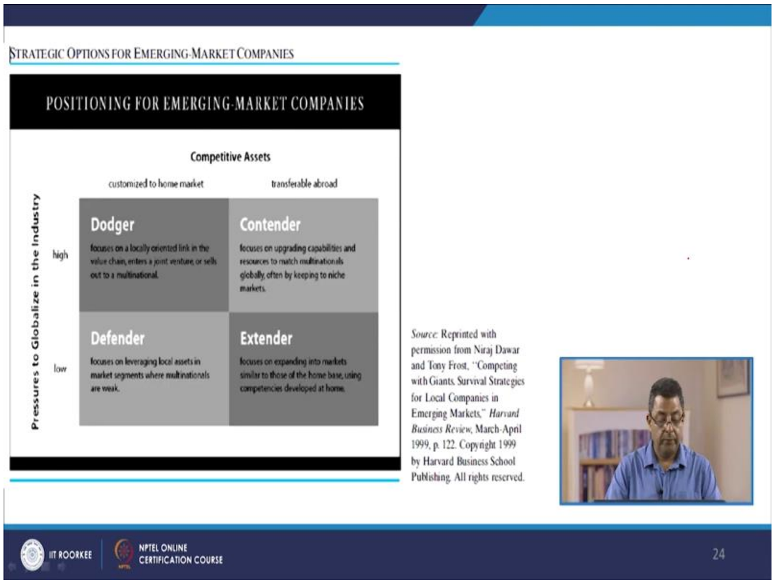

Let us, let us see what are those four strategic options. On the x-axis we have the competitive assets, whether they are, they can be transferred abroad or not, so whether they are customised they are especially for the home market or they can be transferred abroad. On the y-axis there are pressures to globalize in the industry. So if the pressure is there, there can be two outcomes, one can be higher, so the pressure to globalize in the industry is huge or it is low. And these are the four options, the dodger, the contender, the extender and the defender.

Let us talk about Contender. So when the competitive efforts that can be transferred abroad and the pressure to globalize is high, then what the term for this is square is the term that is coined for the combination is called is Contender. And it focuses on upgrading capabilities and resources to match multinationals globally. So now you your capabilities and resources to be upgraded are to be upgraded, so that, so that they match the multinationals globally.

Often by keeping to the niche markets so first you keep on developing your asset, assets and then you can do that so that so, what this contender do is, they focus on upgrading their capabilities and resources. How but given toniche markets, so that they can match their multinationals globally. Now if the assets are, let us talk of a defender, if the competitive assets are customized to the home market, but the pressures to global, globalizing the industries are low, then this kind of company is this kind of combination is called as defender.

And here there is a need to focus on leveraging the local assets which are customized for the home markets, in market segments where multinationals are weak. So, keep in mind when where these defenders have to have to keep on focusing on the competitive assets but at the same time they will also have to look into segments where multinationals are weak.

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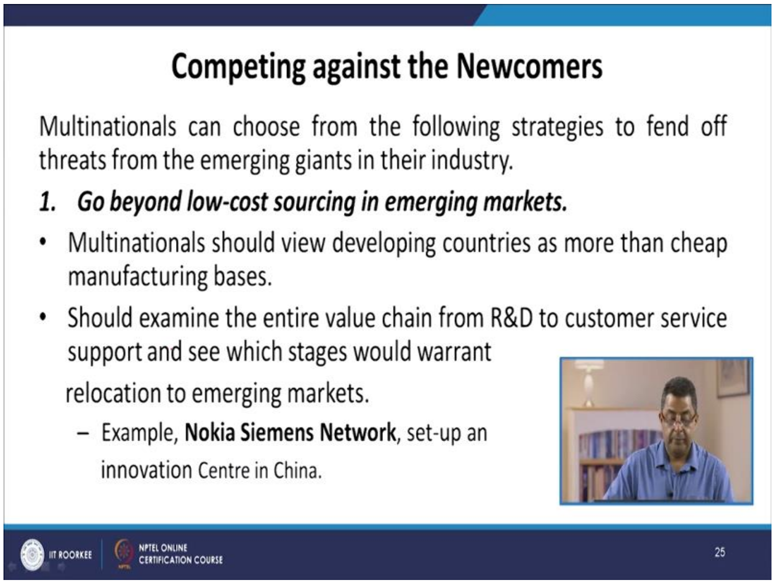

So multinationals can choose from the following strategies to fend off threats from the emerging giants in their industry. The first is go beyond low cost sourcing in emerging markets. So multinationals should view developing countries as more than cheap manufacturing bases. So they should examine the entire value chain from R&D to the customer service, support and see which stages, stages would warrant relocation to emerging markets.

So now they have to look at they have to look at the supply agent from R&D to customer support service. And then look at which of these activities can be done in the, in the emerging markets, which of these activities is more cost incentive, which of these activities about labour in intensive, intensive and then these activities may be carried out in emerging markets. For example, Nokia Siemens Network setup an innovation centre in China.

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The second is to develop market, products in emerging markets and bring them home. So these multinationals, they develop products in emerging markets and then they take it home. So companies should launch in their developed markets, new products that were developed by the subsidiaries, in the emerging markets. So now, the products the flow of the products, is reversed. They are developed in the emerging markets and then taken back to the home market.

So Hindustan lever's Pureit, a cheap home water purification system. The third thing, that they can do, is to copy branding tactics used in emerging markets. So there, there we are talking about adopting the best practices. Emerging Giants often use cost effective tactics to build up their brand image, because I do not have lots of money for brand building. MNC, MNCs should learn from such promotion strategies and emulate such tactics. So they should learn from these strategies, they should learn from the best practices and try to replicate emulate those such tactics.

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Fourth is to team up with New Emerging Giants. Traditionally, multinationals would form a joint venture with the local firm to penetrate the host market. So instead of one directly with this multinational should form joint ventures with the local companies so that make their data much more easier and it because it becomes a marriage of convenience. So the local company will get all the resources of the multinationals, so the multinationals will get all the knowledge that this local company has about the local market.

So that becomes a win- win combination. The multinational should form a joint venture with the local firm to penetrate the host market or more radical approach is to tie up with new emerging giant and harness is capability in delivering value for money innovations IBM partnership with Ariel in the Indian mobile phone market.

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The fifth is to invest in growing mass markets in developing countries. Most Western multinationals focus on high end segments of the market when competing in developing countries and leave the mass markets to their local competitors. Now the problem is that when these multinational come, they focus on the high end customers, and obviously the high end customers are different size and they leave out the rest of the market for the for the for the competitors from the developing countries. So they are living out of, living out on the large mass market for the local competitors.

However such strategies enables local players to build up a scale and experience. So now what happens because they are leaving out on the mass market, the local companies they utilise the capital that that mark that mass market and they build up scale and experience. Based on that and then they also start competing with the multinational not only in the domestic country later on they will go in the multinational home country to compete, so therefore to preempt them multinational must broaden their scope and also go for mass market. So now what is the suggested is that not that they should not only look for the highest segments but also for the mass segments. So, as to stave off competition from local companies becoming, becoming bigger, powerful, and global in nature.

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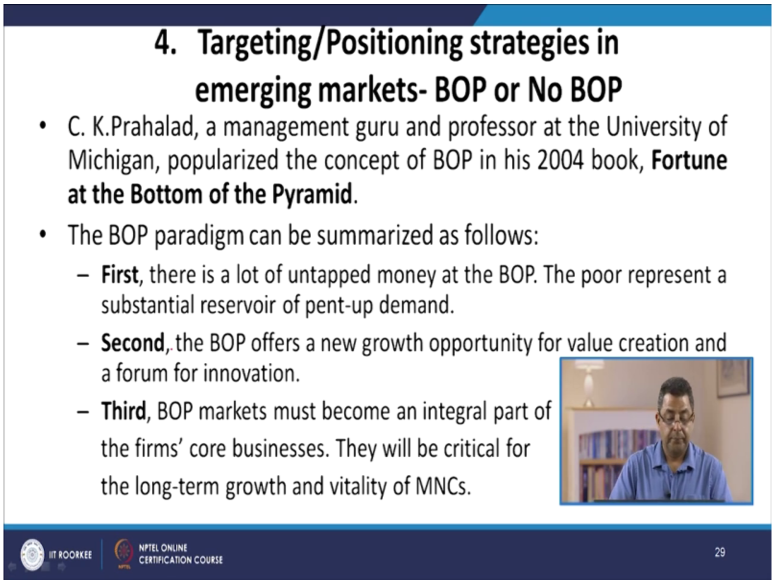

Now let us look at whether to target opposition what kind of targeting and positioning should be used in emerging markets whether we should use Bottom of Pyramid or no Bottom of Pyramid. C.K. Prahalad, who was the management guru and professor at the University of Michigan, he popularized the concept of bottom of Pyramid in his 2004 book, for that is, that is Fortune at the Bottom of Pyramid. So this book is written by professor C.K. Prahalad, he was, he was at the University of Michigan,he is no more now.

The Bottom of Pyramid paradigm can be summarised as follows, so what is this bottom of pyramid paradigm, what is this bottom of Pyramid all about? First, there is a lot of untapped money at the bottom of pyramid. So the first thing, first assumption is that, there is lot of money with at the bottom of pyramid, the poor represent a substantial reservoir of pent up demand.

This, they have, assumption is that, there is lot of money at the at the bottom of this pyramid with the poor and there is a substantial reservoir of pent up demand and there's also a lot of demand at the bottom of pyramid. So they have the money and they have the demand. The second, assumption is that the bottom of pyramid offers a new growth opportunity for value creation and a forum for innovation, so because now you see that they have lots of money, it is so big, and if even if a person has very small amount of money also, because the size is so big, it becomes lots of money, and they also because each individual has a small amount of money, they have the demand.

Because each individual does not have enough money to buy buy bigger products but each individual has a small amount of money at his disposal therefore there is a need to create there is a there is an opportunity for creation of value and a forum for innovation. It means that now the companies have the , companies can innovate or customize or redesign their products.

So that they can then be sold to this bottom of pyramid people the third is the bottom of pyramid market must become an integral part of the firms' core businesses. They will be, they will be critical for the long term growth and vitality of the multinationals. Now third is, third thing is that this balance or bottom of pyramid market, should become the integral part of the firms' core businesses, it should not be that, it should not be periphery it should be at the heart of the company, because, why, because long term growth can be had from this bottom of pyramid and not short term goal growth.

So and the company will invest in this kind of innovations and value creation only when this is taken as the firms' core business, and only then this will lead to long term growth, short term growth may not be there,, in the in this kind of market.

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What are the benefits of catering to the Bottom of Pyramid Markets in Emerging Markets? So obviously as everything has two, two, two sides this also has two sides, so let us, start with, with understanding what are the benefits. Let us start with understanding what are the benefits. The first is, some Bottom of Pyramid markets are large and attractive as stand-alone entities. So at some places or in some categories this Bottom of Pyramid market they are large, and they are so large, that, they are also attractive as stand-alone entities.

Many local innovations can be leveraged across other bottom of pyramid markets, there by creating a global opportunities for such innovations. So now local innovations can be, can be used for this bottom of pyramid markets and then these innovations can also be taken by the headquarters by this, multinationals back home. Some renovations that originate in BOP market can also be launched in the MNCs developed markets. The learning experience from the bottom of pyramid markets can also benefit from the multinationals, so it is about money and experience both.

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Now let us look at what are the various Entry Strategies for Emerging markets. So we have seen various kind of entry strategies, now we will talk about which strategy is more appropriate in emerging market, because that, because that entry strategy decision is very important, that because, because then it will affect the long-term success of this multinational. So that two key decisions related to entry strategies for emerging markets are, first is the timing and the mode of entry.

So, we in the, in order to understand this entry strategy we have to know, we have to understand these two things, timing and the mode of study, mode of entry. Despite the appeal of emerging markets, especially the huge, Brazil, Russia, India, and China, these countries early entry can hurt performance even for mighty brands. So for example, Kellogg's pre-mature entry in Indian market. Now this means that, the timing of entry should be appropriate and that timing will also determine the mode of entry.

The example is that of Kellogg's made a premature entry in India, and India was not, not ripe , India was not developed enough or India, Indians did not considered it important to eat cornflakes in breakfast, because of that thing, it is said that Kellogg's made premature entry in India. Till recent times they are suffering because of this pre mature entry.

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So when cereal industry of Western countries matured in 1990s, Kellogg's then decided, because the western countries the market has matured, so Kellogg's decided that it should now go to India. Kellogg's ventured into India with US dollar 65m investments as India was a big market with 1 billion people and with very few direct competitors. So there were no direct competitors, Maybe Mohan Meakins was the only competitor.

Unfortunately hmm Indian consumers find the whole concept of eating breakfast, breakfast cereal odd. Indians did not consider eating cereals in breakfast. Although initial sales was encouraging, but sales never took off. Most likely, India was not yet ready for the western style cereals and Kellogg's entry may have been too hasty and aggressive. So they were very aggressive as they invested lots of money but the problem is that Indian did not considered, did not wanted to eat breakfast, cereal breakfast cereals. So all of this investment went waste.

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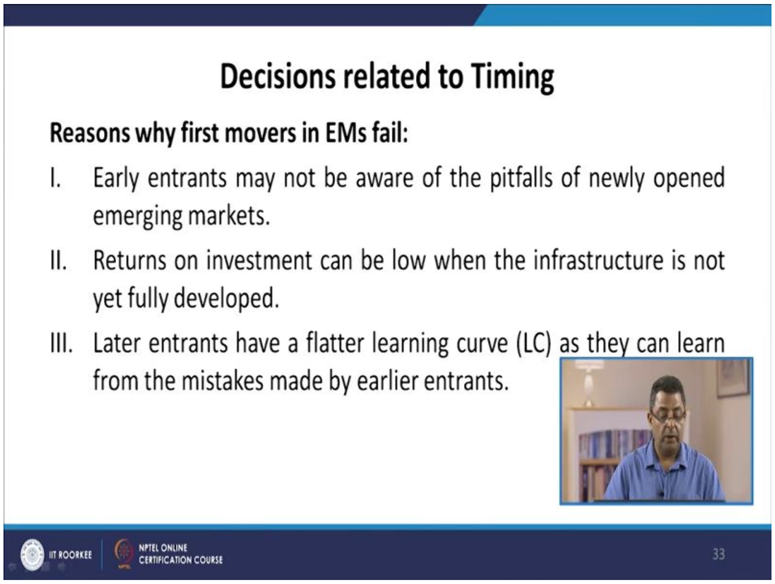

Now let us look at, what are the decisions related to the Timing. The first let us look at the reasons why first movers in emerging market failed. So when the companies they move fast in emerging markets, why do they fail? The first is, the first reason for the failure is early entrants may not be aware of the pitfalls of newly opened emerging markets. So they may not be aware of, what are the changes happening, and how they are the changes are going to affect the consumers?

The second is the return on investments, can be low when the infrastructure is not fully developed. So they may have decided to have a different kind of return investment but when they enter, they will find, because of infrastructure is not developed even they will find that the return on investment is low. The third is later entrance have a flatter learning curve as they can learn from mistakes made by the earlier entrants. So the later entrants obviously will have, will have learnt from the early entrants mistake so therefore, therefore chances of success are more.

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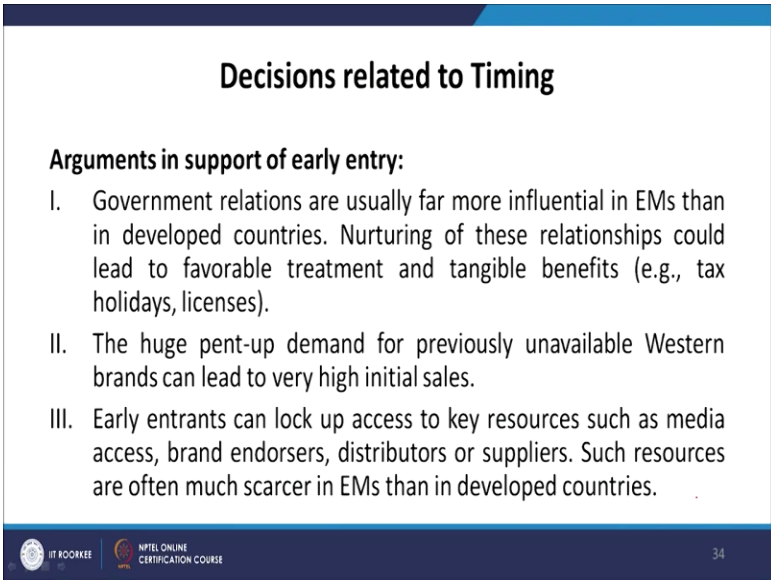

But there are certain arguments that supports early entry also, the first argument is that the government relations are usually far more influential in emerging markets than in developed countries. So in developed countries, government relation may not affect, because everything is in place, but in emerging market government relations are important. Nurturing of these relationships could lead to favourable treatment and some tangible benefits also, for example, that, holidays, licenses.

The second argument to support early entry is that the huge pent up demand for previously unavailable Western demands can lead to high initial sales as have been as in the case of Kellogg's. The third argument is early entrance can lock of access to key resources such as media access, brand endorsers, distributors and suppliers. Such resources are often much scarcer in emerging markets than in developed countries.

Now you see that early entrants he entered and he is able to buy these resources which are scarce even more scarce in emerging markets, so they, they are able to buy these resources. Now what happens is that, these resources become more costly and more scarce for the second mover or the late movers.

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Early entrants can enjoy higher productivity of their marketing dollars. So now because of this, they can enjoy higher productivity of their marketing money. In early stages of economic development, advertising rates and competitive market spending are relatively low. Therefore marketing dollars can deliver much more bang for the buck, in the form of high awareness, share of mind, and brand preference, compared to later stages.

Now what is happening because there are no competitors competition and there's no platter so therefore and also because the resources which scarce they have bought and cheaper is case and cheaper earlier and they have brought them, so now the first mover they can make much more noise, they can have higher awareness, share of mind, etc. etc.

But when the when the late entrants come, they will find that, is resources, good resources, more effective resources have already been taken up by the by the first mover at a lesser cost and they have to buy the remaining resources at a higher cost. And therefore their marketing their productivity of marketing dollars will be less as compared to that of an early entrant.

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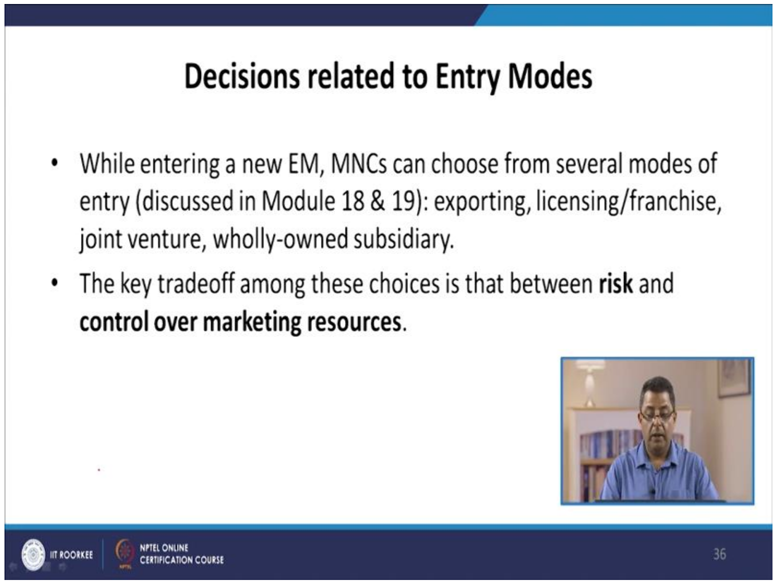

Now let us look at the, Decisions relating to the Entry Modes. While entering a new emerging market, multinational can choose from several modes of entry, that we have discussed in module 18 and 19, and that include indirect exporting, and direct exporting licensing, franchising, joint ventures and wholly owned subsidiary. The key tradeoff among these choices is that between risk and control over the marketing resources.

So all through this the trade-off is between risk and control. The key tradeoff among these choices is that between risk and control over the marketing resources. And they are inversely proportional as the control increases, the risk decreases, and as the control decreases risk increases. So that is what is important.

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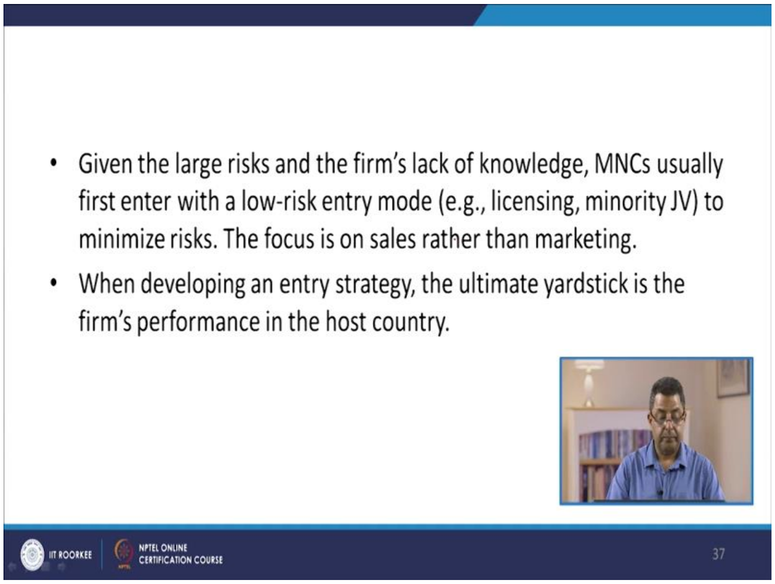

Given the large risks and the firm's lack of knowledge, multinationals usually first enter with a low risk entry mode, because they do not know what will happen so they use a no risk entry mode, that is licensing or minority joint venture to minimize the risk. The focus is on sales rather than marketing, so they want to just keep on selling the product and not marketing them, because of the higher risk. When developing an entry strategy the ultimate yardstick, is the firm's performance in the host country.

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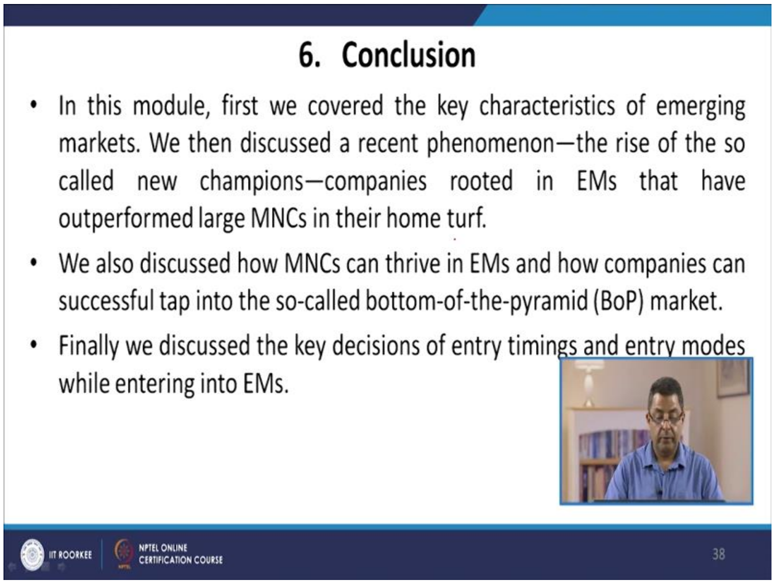

To conclude, in this module we have covered the key characteristics, what are emerging markets, what are the characteristics of emerging markets, and then we have discuss the recent phenomena that is the rise of so-called new champions. For example Patanjali Yogpeeth is considered as a new champion. Companies rooted in emerging markets that have outperformed large multinationals in their home tufts. We have also discussed how multinational companies can thrive in emerging markets.

So, on the one hand we have talked about companies from emerging markets bit who are becoming new Champions and then we have also talked about what multinational company should do in order to thrive in emerging markets and how companies can successfully tap into the so-called bottom of pyramid markets, what it needs to take, what should be done in order to tap in this huge or so called big bottom of pyramid market.

And finally we have also discussed the key decisions of entering timing and entry modes, while entry, entering into the emerging markets, so entry timing is important and it will determine the entry mode. And in we have talked about what should what happens in the first mover, what kind of entry mode should be used, and what should be used by late movers. So first mover may go in for exporting, late movers may go in for joint ventures or minor, minority joint venture partnerships.

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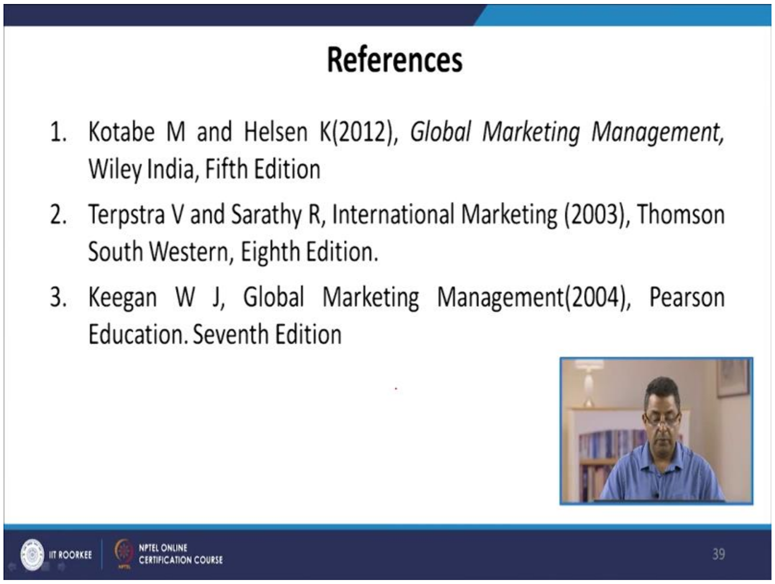

And we have used these 3 books to develop the module. Thank you.