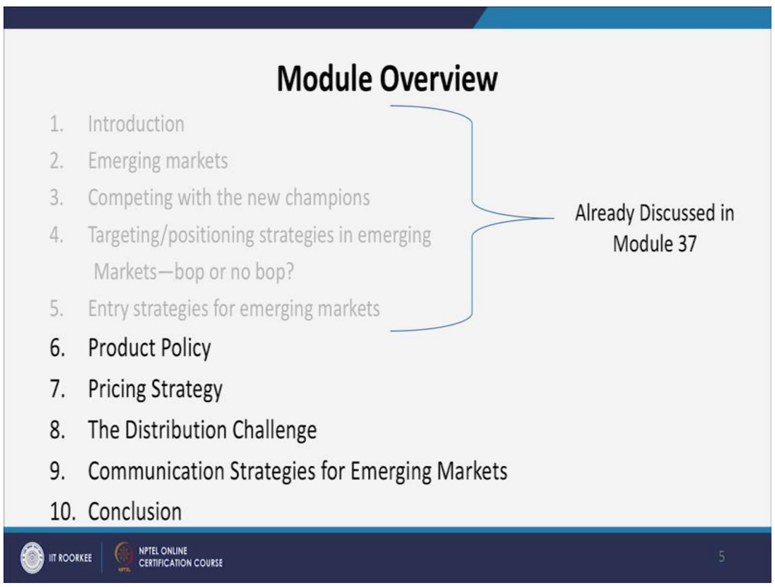
Global Marketing Management
Prof. Zillur Rahman
Department of Management Studies
Indian Institute of Technology- Roorkee

Lecture – 38
Marketing in Emerging Markets– Part II

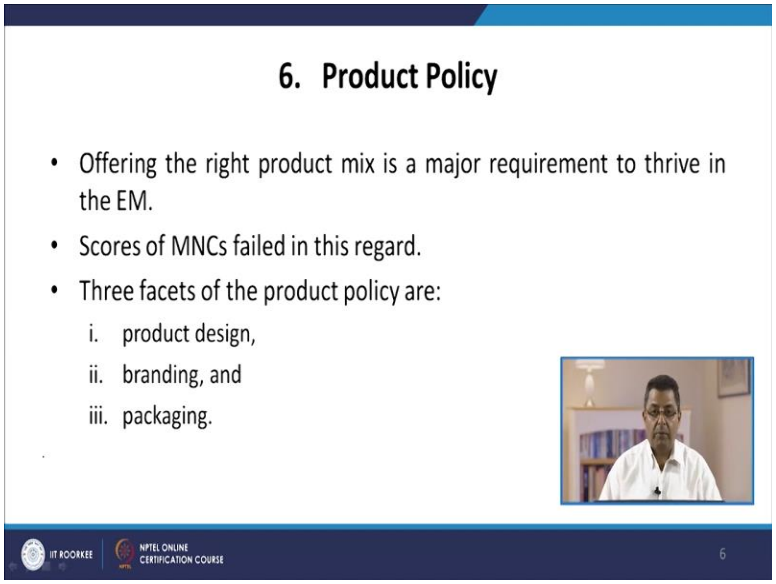
Welcome to global marketing management and we will continue with our discussion on marketing in, in emerging Markets and in module 37. We have started this and you will continue with the same in module 38.

(Refer Slide Time: 00:40)



In module 37 we have about what are emerging markets, what how the how do the new Champions they compete in this market the targeting and positioning strategies in these markets and the entry strategies in this markets. In, in this module, we will talk about the 4ps that is a product policy is the pricing strategy, distribution and communication. Let us see, first start with the product policy.

(Refer Slide Time: 01:00)

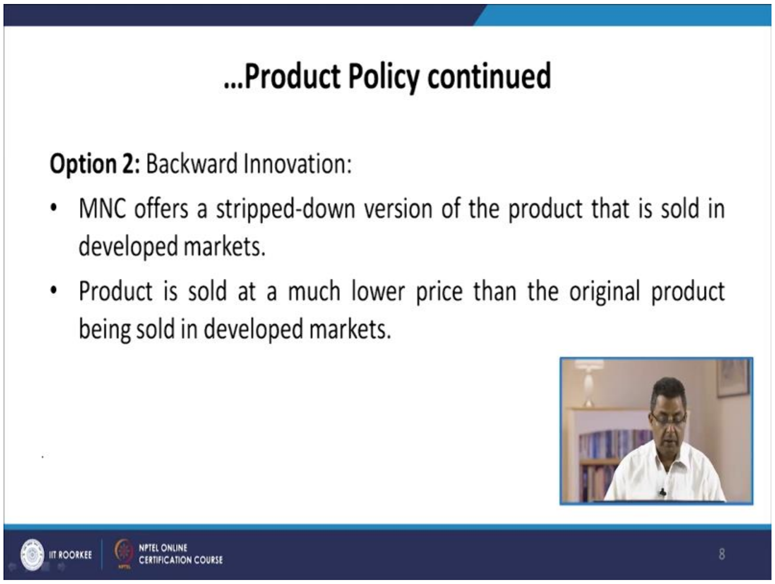


Now, offering the right mix requirement to thrive in an emerging market and many of the multinational they have failed because of wrong product policy. And there are three dimensions or three facets of product policy and they include product design branding and packaging.

(Refer Slide Time: 01:22)

Now, let us see what is product design when first entering and emerging market the multinational is reluctant to adopt, adopt its product offering to the host market, because they do not know what kind of environment will be there. So that is why they are reluctant. So and adaptation also cost money and it is time consuming. So now what happens? To the first option is the multinational might sell in a narrow range of existing products and position them as premium products targeted at the affluent emerging market customers.

(Refer Slide Time: 01:50)

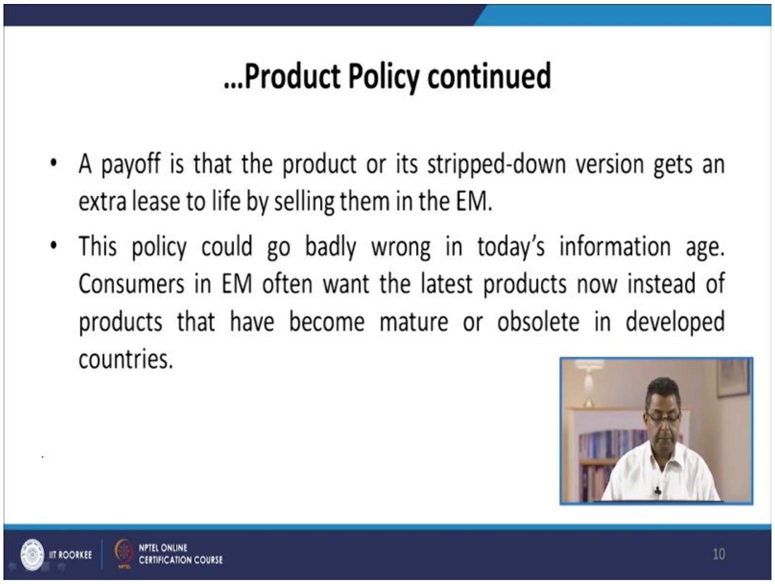


Option 2 as they can do backward innovation. So MNC's they offer a stripped down version of the product that it is selling in the home market. The product is sold at a much lower price than the original product being sold in their parent market.

(Refer Slide Time: 02:09)

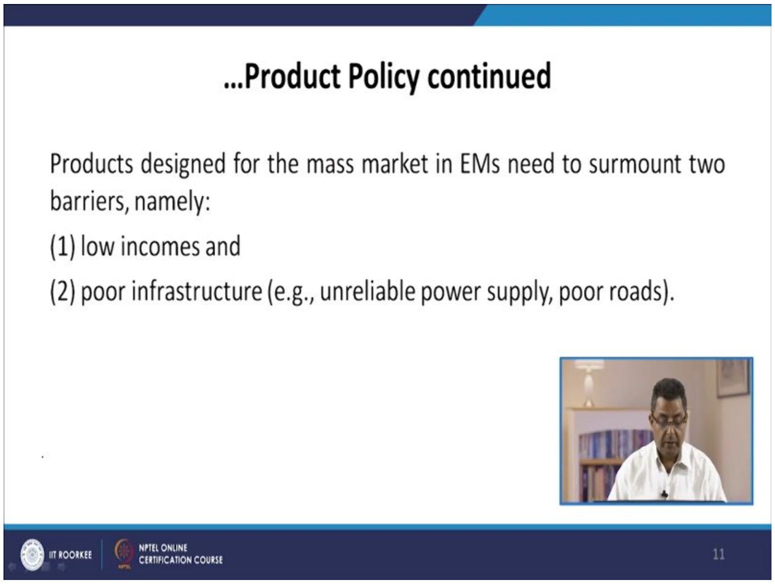
For example, Panasonic so-called Emerging markets win, product exemplify this approach. So these products are mostly, mostly appliances and electronically designed in Japan but with less features. For example, lesser refrigerator doors or fewer refrigerator doors are modified slightly for the local customers. The line targeted upper middle class income consumers. That is the next rich in fast growing developing countries.

(Refer Slide Time: 02:45)



A pay off is that the product of its stripped down version gets an extra lease of life by selling them in the emerging markets. So, these products they have already lived their lives in the developed market. And now they are launched in emerging markets so their product life cycle in increases. And this policy could go badly wrong in today's information age because consumers in emerging market they want the latest product now instead of the product that have become mature or obsolete in the developed countries.

(Refer Slide Time: 03:17)

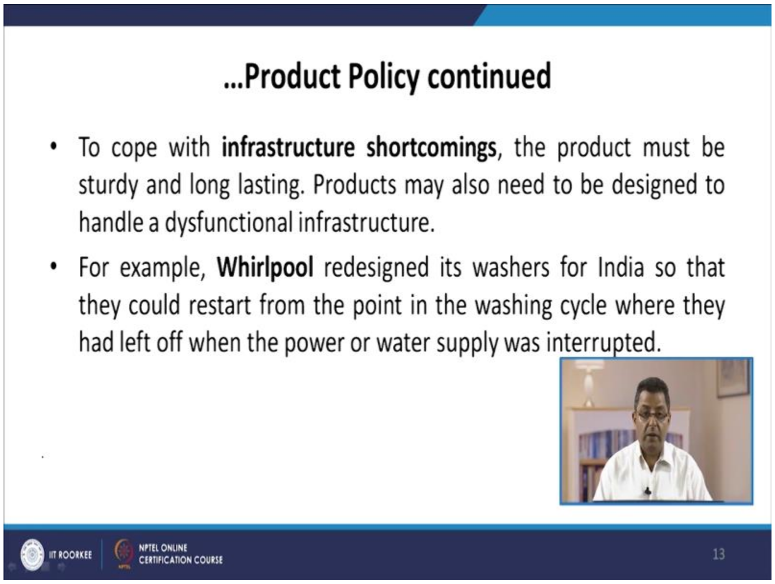


Product designed for the mass market in emerging markets needs to surmount two types of barriers. The first is, that the large population has low income and then these emerging markets they have poor infrastructure. For example, they may not have a reliable power supply, roads can be poor and the law and order situation can be poor.

(Refer Slide Time: 03:40)

Now, what happens when the income is low? So it implies that product should be affordable functional and built to last. Quality consistency is also crucial. Following China's melamine milk scandal many Chinese mother switch to foreign milk powder brands because of their safety image and consistent quality.

(Refer Slide Time: 04:07)



And to cope with infrastructure shortcomings the product must be sturdy and long lasting. The products they also need to be designed to handle a dysfunctional infrastructure. For example, Whirlpool redesigned its dishwashers for India so that they could restart from the point in the washing cycle where they had left off when the power or the water supply was interrupted. Another important issue here is that of branding.

(Refer Slide Time: 04:29)

Now local brands have often humbled the global brands in emerging markets. Assuming that consumers in emerging market will pay a premium for global brands can be a fatal mistake. So keep in mind that emerging markets the consumers are more value conscious, they have low income. So it may not always be possible that them they are ready to pay a premium for global markets for global brands. One McKinsey study describes the two pronged branding strategy for multinationals which are doing business in emerging markets under the following two categories. First is used for the wealthy segment and another is for the bottom of Pyramid segment.

(Refer Slide Time: 05:10)

For the wealthy segment the multinational can pursue sophisticated brand building strategies especially among the youth segment, the global brands can offer a passport to global citizenship and thereby foster a global identity. So what they are trying to do if that this youth market they are offered this Global brand and they are made to believe that this will lead them to a global citizenship and thereby they will have a global identity.

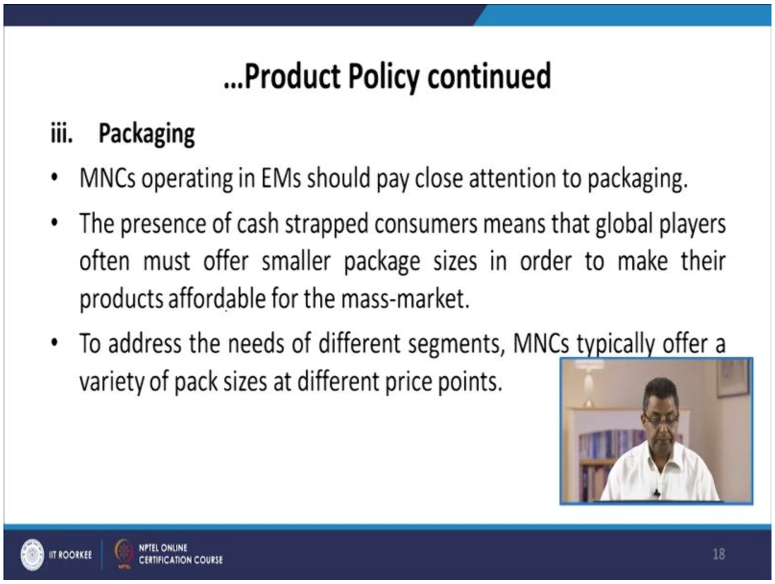
(Refer Slide Time: 05:40)

And to capture the bottom of pyramid markets, multinational's should try to emulate their local competitors because local competitors are more near to the market and there are more aware of what is to avoid needs, needs to be done. Focus should be on keeping the best local managers, cost reduction, operational efficiency and simplicity. So let us talk of the case of Unilever in Indian market.

(Refer Slide Time: 06:03)

Hindustan Unilever Limited one of the dominant players in Indian shampoo market sells Global brand for example, Dove, Sunsilk, in this category. Indian women often oil their hair before washing. So, Western shampoo that do not remove oil and have not done, they have not done well in India due to this reason. HUL had to reformulated shampoos in India for and drop the conditioners.

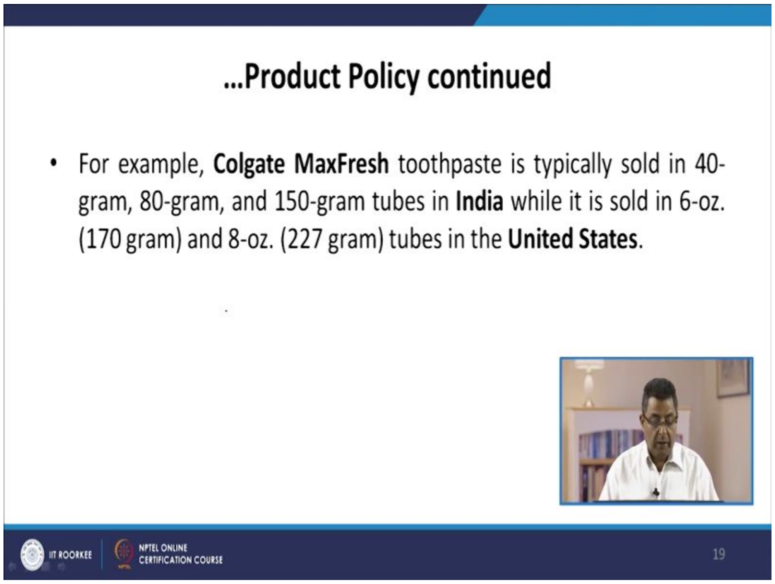
(Refer Slide Time: 06:23)



So, after we have talked about the product policy the branding and then comes and other important aspect that is the packaging multinational operating in emerging market should also play pay close attention to Packaging of their products. The presence of cash strapped consumers means that Global player must often offer a smaller package, package size in order to make their product more affordable for the mass market.

Now keep in mind that there is market but they have low income. So the, because of this low income they are not in a position to buy bigger size packages so that is why they go in for, want to buy small size packages. And it also reduces their risk because they do not like the product then the whole big package goes waste. To address the needs of different segments multinational's typically offer a variety of pack sizes and that had a different price points.

(Refer Slide Time: 07:29)



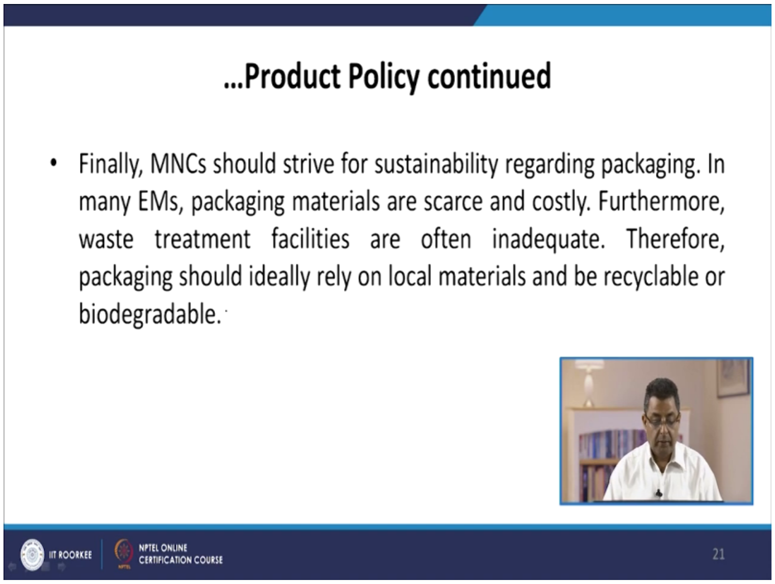
For example, Colgate Maxfresh, toothpaste is typically sold in 40 grams, 80 grams and 150 grams tubes in India while it is sold in 6 oz that is 170 grams and 8 oz that is 227 gram tubes used in the United States.

(Refer Slide Time: 07:46)

Because of their freshness and safety that is the seal packaging brands sold by MNC are often favoured by local consumers because they have better packaging. And that gives them fresh and safe. For example, the pharmaceutical company, Pfizer benefits from the belief in much of the developing world that branded medicines are worth paying a premium for because they are safer and more effective than generics.

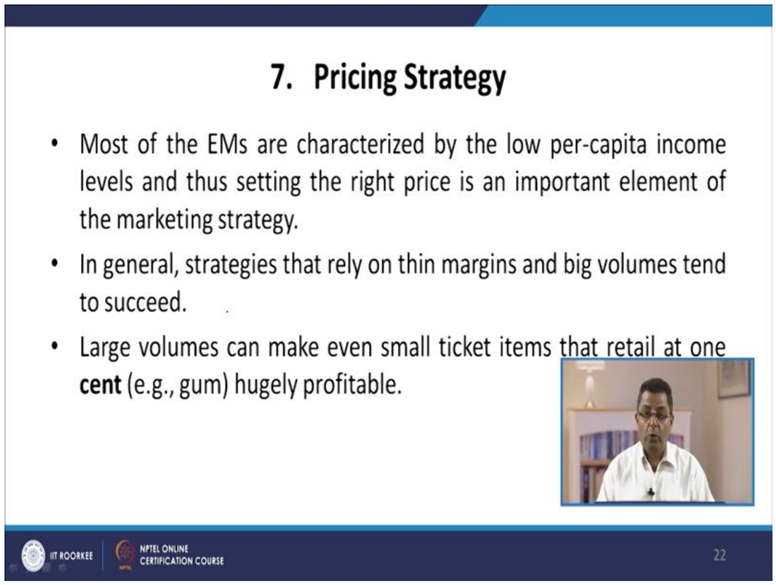
Pfizer prices in Venezuela though far below that of US prices, they are still 40 to 50% more than the generic.

(Refer Slide Time: 08:20)



Finally, the multinational should strive for sustainability regarding. The packaging in many emerging markets, packaging materials are scarce and costly. Furthermore waste treatment facilities are often inadequate. Therefore packaging should ideally rely on local materials and be recyclable and biodegradable.

(Refer Slide Time: 08:43)

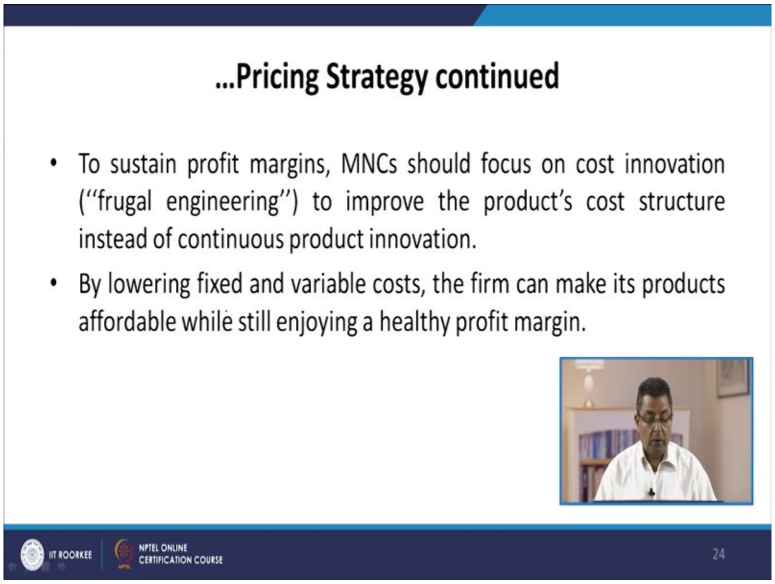


So, after we have talked about the product policy, now we will talk about the pricing strategy. Most of the emerging markets are categorised by low per capita income levels and therefore low disposable income and thus setting the right price is an important element of the marketing strategy. But then also keep in mind that the pricing strategy has to be relation with the product policy. In general, strategies that rely on thin margins and big volumes tend to succeed in these markets. And large volumes can make even small ticket items that retail at one cent that is for example chewing gum that it can be hugely profitable.

(Refer Slide Time: 09:24)

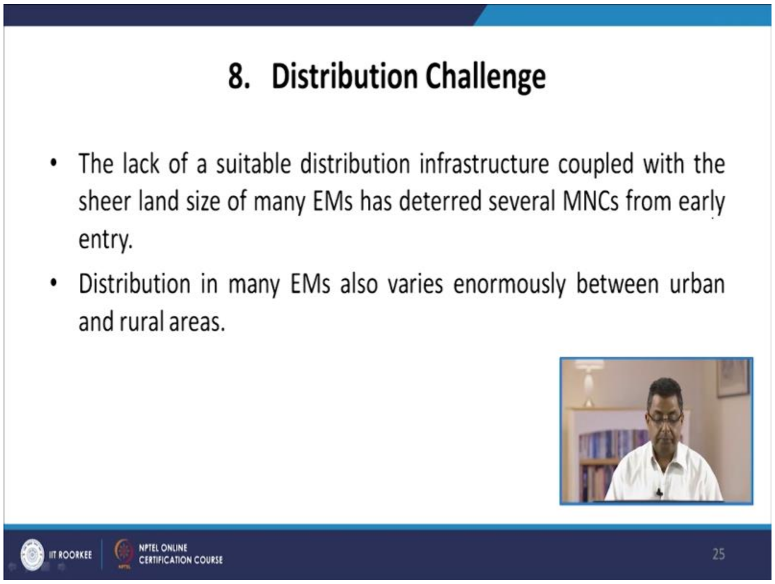
And to capture sustainable sales volume a multinational should try to saturate all price, price points instead of simply focus focusing on the upper end of the market. For example in India HUL dominates most of the product categories in which it competes. In all of these categories HUL market at least one brand at each price tier.

(Refer Slide Time: 09:48)



To sustain the profit margins multinational should focus also on Cost innovation that is frugal engineering to improve the Products cost structure instead of continuous product innovation. So continuous product innovation is one thing but then the company should also have to focus on product cost structure. By lowering fixed and variable cost, the firm can make its product affordable while it is still enjoying a healthy profit margin.

(Refer Slide Time: 10:15)

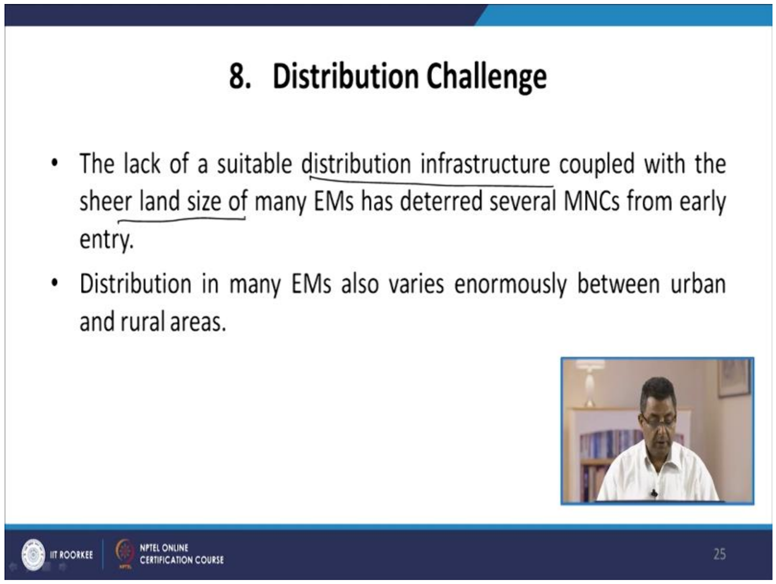


Another important challenge that or strategy is that that the multinational has to keep in mind is the distribution challenge. So, now we were talking about what what should be the marketing mix for a, for a multinational in an emerging market and these are the three important things that the multinational has to keep in mind. The first is the product design, the second is branding and the third is packaging.

So we have talked about product design branding and packaging and now we will move on from product policy. We have talked about the product policy and we have told about the pricing policy. Now, we will talk about the distribution challenge. So you see the whole idea of doing all this is that you should understand how multinational companies they have to adopt their strategies and tactics in emerging markets.

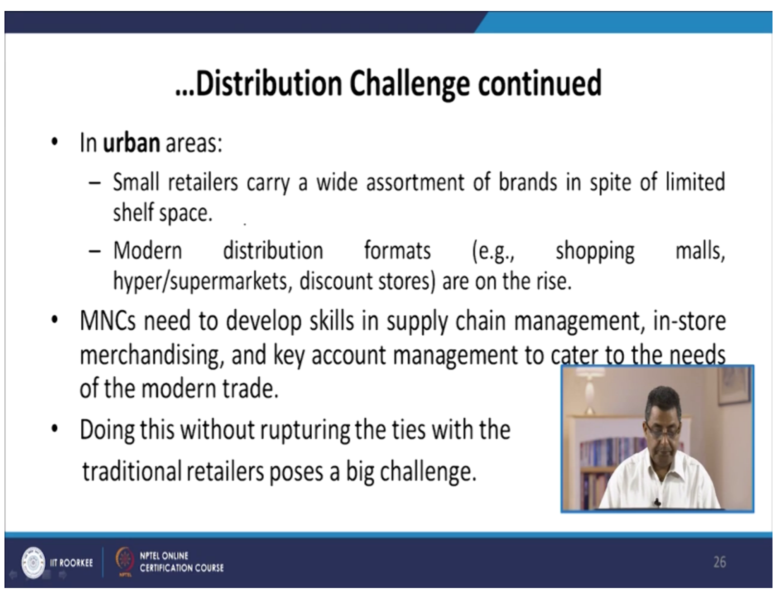
Now let us continue with the distribution challenge. Now, distribution challenge is distribution across countries is a problem because different countries will have a different type of types of distribution system and it is also a very large extent dependent on the infrastructure available in that country.

(Refer Slide Time: 11:19)



So the lacks of a suitable distribution infrastructure coupled with the sheer land size of many emerging markets have deterred several multinationals from early entry. Now you see what happens is that the distribution infrastructure is weak and their land size is huge so that that means more transportation cost and therefore many multinational they do not want enter first in these markets. And distribution in many emerging markets also varies enormously between Urban and rural area. The other problem of the distribution is that of the urban and rural area. So in urban areas there can be pockets of good infrastructure while in rural areas there can be no good infrastructure available so that increase the challenge of distribution.

(Refer Slide Time: 12:04)

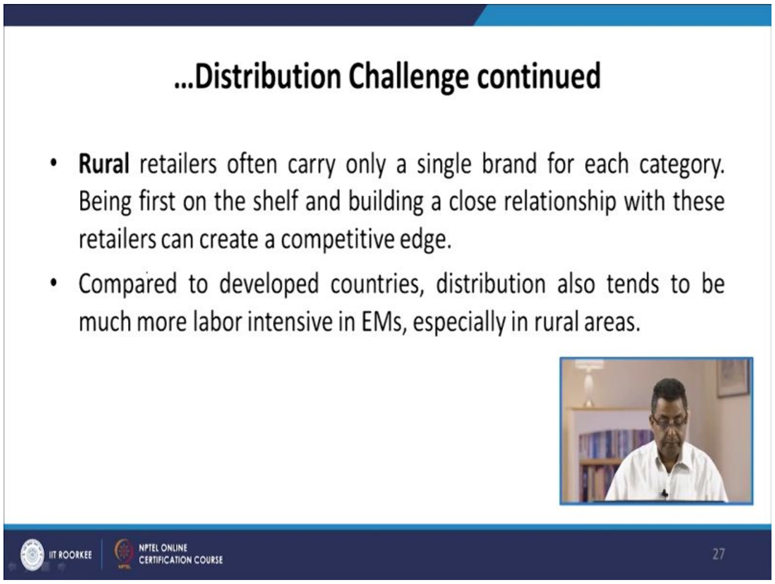


In urban areas another problem is that small, there are small retailers. So in urban areas, small retailers carry a wide assortment of brands in spite of Limited shelf space so they are small retailers they have limited shelf space and in within that shelf space, they want to carry a wide variety of brands modern distribution formats. For example, the shopping mall, Hypermarket, supermarkets, discount, discount stores they are on the rise, but still there are several urban areas also were these kinds of modern distribution formats not available.

They need to develop skills in the supply chain management, in-store merchandising and key account management to cater to the needs of the modern trade. So when these multinational companies are coming to the emerging market, they have to adapt to their distribution and then they also have to develop skills in supply chain management and in-store merchandise, in key accounts management doing this without rupturing the traditional retailers poses a big challenge.

Now, you see that there are two types of problems to two things that need, needs your attention one is that there are traditional retailers. So, the multinational they have to cater to the retailers requirement and at the same time there are modern distribution formats that are coming up. So now there is a huge difference between these two. So, this modern distribution for for formats that they have lots of infrastructure support and they have they can use Information Technology etc.etc while the traditional retailers may not have all these facilities. And so the bigger challenges how to cater to these two different types of distribution formats.

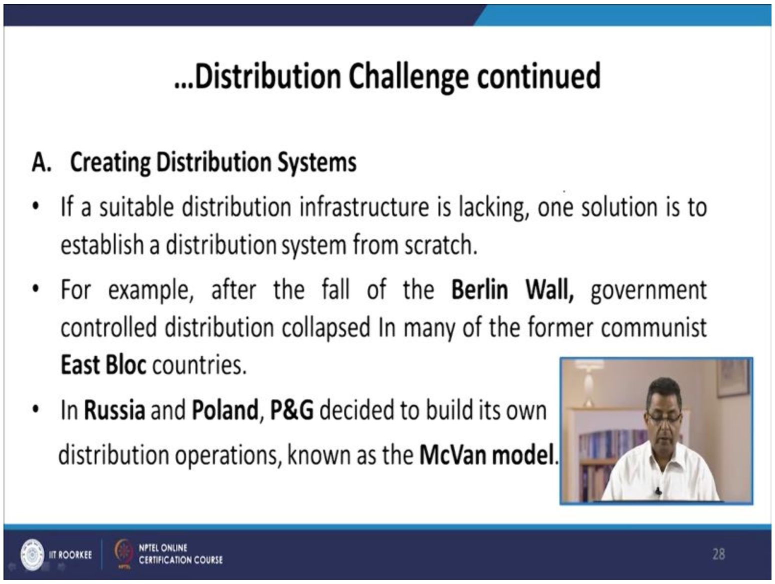
(Refer Slide Time: 13:53)



Rural retailers often carry only a single brand for each category being first on the shelf and building a close relationship with these retailers can create a competitive edge. In rural retailers, they keep one brand while you have seen that urban retailers even small retailers there they keep a wide variety of brands. So if a multinational enters the multimarket and go to the rural areas then it has it has to be the first because the rural retailers carry only one single brand for each category.

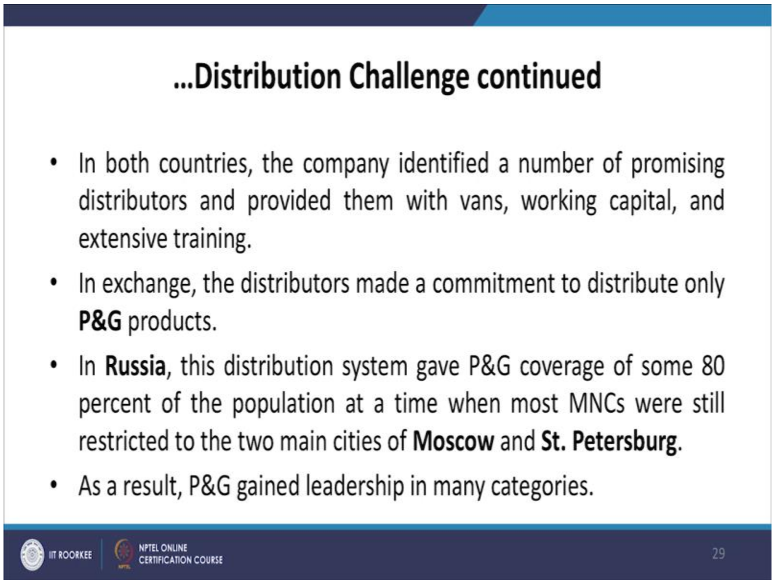
As compared to developed countries distribution also tends to be much more labour intensive in emerging markets and that especially in the rural areas. So in when, in rural areas where infrastructure is not there so the distribution is more labour intensive while it may not be so in urban areas where the infrastructure is developed.

(Refer Slide Time: 14:49)



How to go about creating a distribution system? If a suitable distribution infrastructure is lacking, one solution is to establish a distance distribution system from scratch. For example after the fall of the Berlin Wall, government controlled distribution collapsed in many of the following communist East Bloc countries. In Russia and Poland P&G decided to build its own distribution operations known as McVan model.

(Refer Slide Time: 15:16)



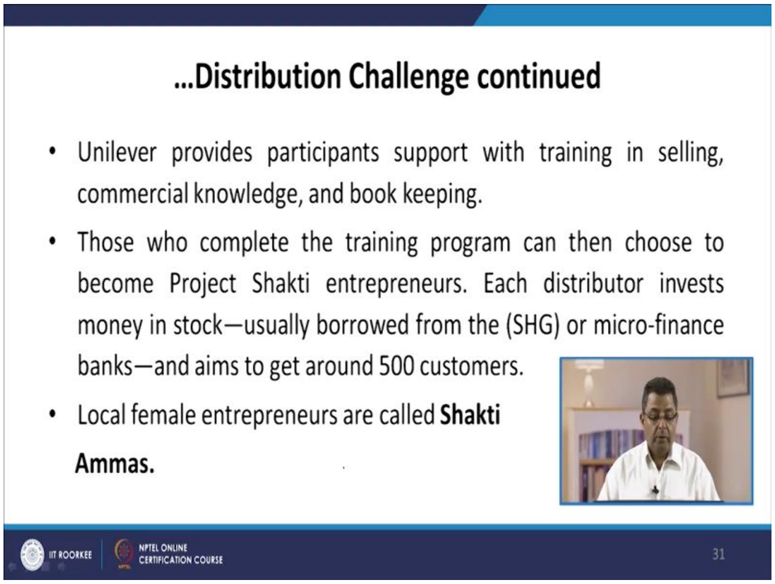
In both countries, the company identified a number of promising distributors and provided them with vans, working capital and extensive training. In exchange the distributor made a commitment to distribute only the P&G product. So now you see how to establish, to enter to remain in this kind of market the amount of money that went into just for creating a distribution network was huge. In Russia, distribution system gave P&G coverage of some 80% of the population at a time when most MNC where still restricted to the two main cities of Moscow and Saint Petersburg. So with, with this kind of investment P&G was able to capture lots of Russian market although the other multinationals were confined to the two big cities, Moscow and Saint Petersburg. As the result P&G gained leadership in many product categories.

(Refer Slide Time: 16:13)

Unilever's approach to distributing its product in rural India which is called as Project Shakti, it is started in 2001. The objective of this was to reach 500000 villages in HUL tapped into the growing number of women self help group of which about one million now exist across India. Company's representative gave presentation to the self help group meetings and invite their members to become direct to consumer sale distributor selling Unilever products.

Now what Unilever was doing is that they roped in many women self help groups and these self help groups the Unilever invited HUL invited their members to become direct-to-consumer sale distributors, So these ladies were used to sell the product of Hindustan Unilever so that was direct to the consumers and lots of the retailers and distributors where eliminated from the distribution system.

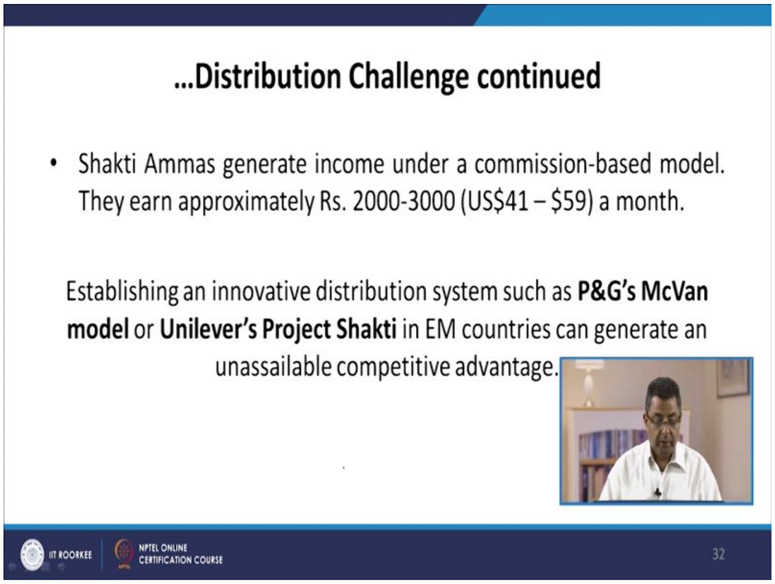
(Refer Slide Time: 17:12)



Unilever provides participate participants support training in selling, commercial knowledge and bookkeeping. So what Unilever did was after they have recruited these women they they gave them a different kind of trainings about the product and also training in how to go about selling those thing and then the commercial knowledge and bookkeeping. Those who complete the training program can choose to become Project Shakti Entrepreneurs.

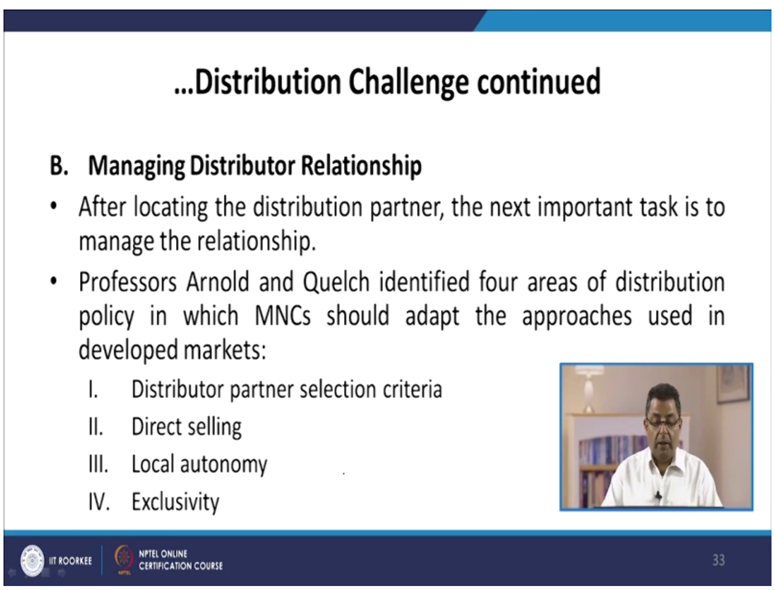
So those who went into this program they become Project Shakti entrepreneurs. And each distributor invested money in the stock usually borrowed from the self help group or microfinance banks and aims to get around 500 customers. So local female entrepreneurs were then called as Shakti Ammas.

(Refer Slide Time: 18:02)



Shakti Ammas generate income under the commission based model. They earn approximately Rs 2000 to 3000 a month. Establishing an innovative distribution systems such as the P&G's McVan model or Unilever project Shakti in emerging markets can generate a huge competitive advantage.

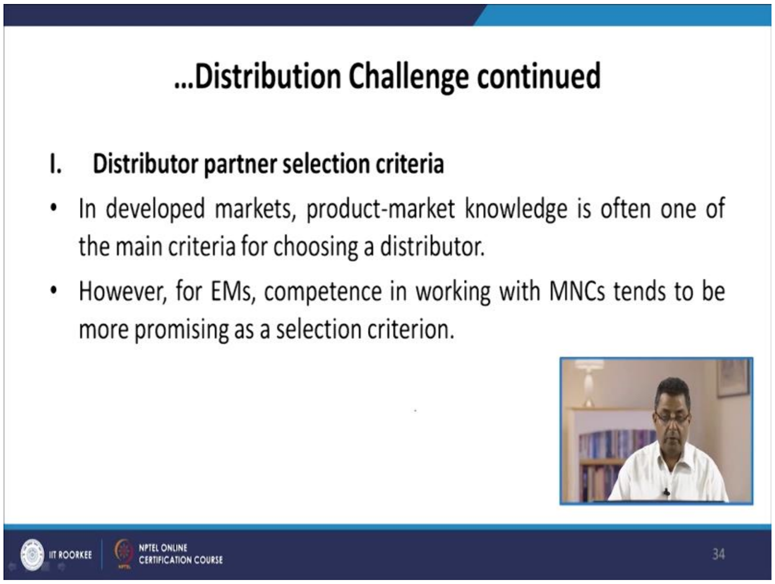
(Refer Slide Time: 18:24)



The next challenge of distribution is to manage distribution relationship. So, after locate the locating those partners the next important task is to is to balance the relationship and to continue with the relationship with them. So the Professors Arnold and Quelch they have identified four areas of distribution policy in which multinational should adopt the approach, approaches used in the developed markets. The first is distributor partner selection criteria.

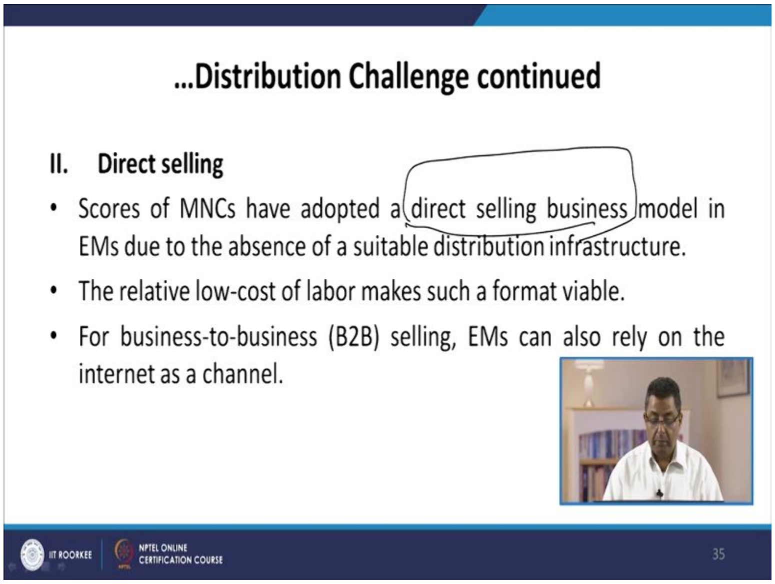
So that is the first important thing how to go about selecting a distributor partner then, the direct selling, local autonomy and exclusivity.

(Refer Slide Time: 18:59)



Now, let us talk about each of them in detail. So let us start with the first one. That is distributor partner selection criteria. In developed markets, product market knowledge is often one of the main criteria for choosing a distributor because they know which product will sell in which kind of market. However for emerging markets competence in working with multinational tend to be more promising as a selection criteria.

(Refer Slide Time: 19:23)

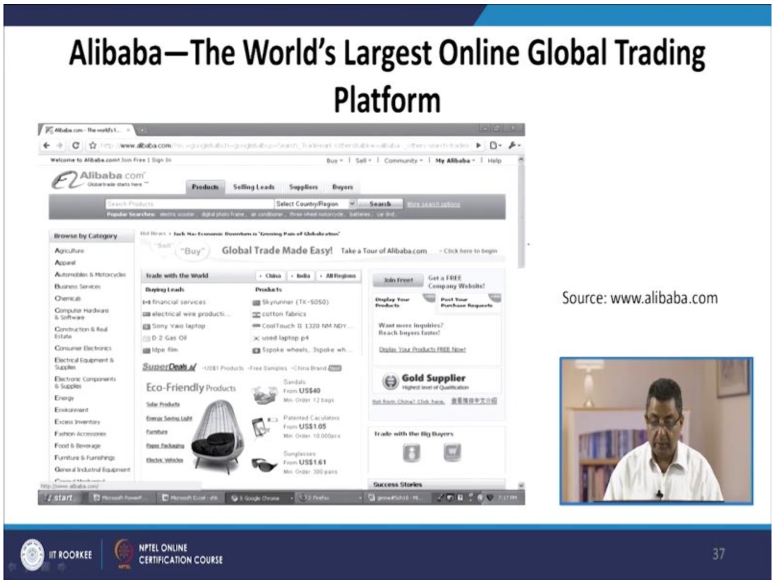


The next is the direct selling. So, scores of multinational companies have adopted by direct selling model in emerging markets due to the absence of, so they now because they do not have any alternative distribution infrastructure so they have adopted a direct selling business model. The relative low cost of labour makes such a format viable. And in for business to business selling emerging markets can also rely on internet as a channel.

(Refer Slide Time: 19:50)

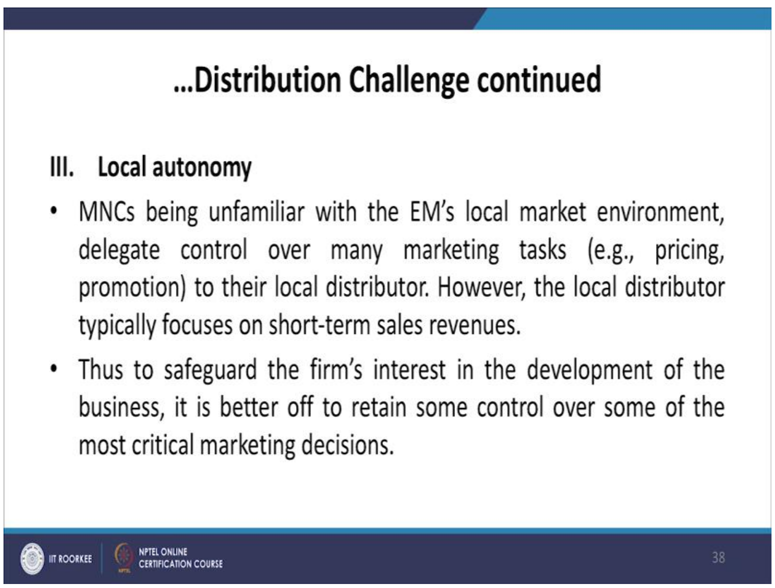
For example, China, China based Alibaba is now the world's largest online global Trading platform with 488 million active buyers as in 2017. The bulk of the sites customers are Chinese companies seeking buyer overseas, is still the internet from plans to become the online trading house of choice for small and medium sized enterprise around the world.

(Refer Slide Time: 00:40)



This is a screenshot of the website of online global Trading platform Alibaba. So you can see there are lots of product categories there.

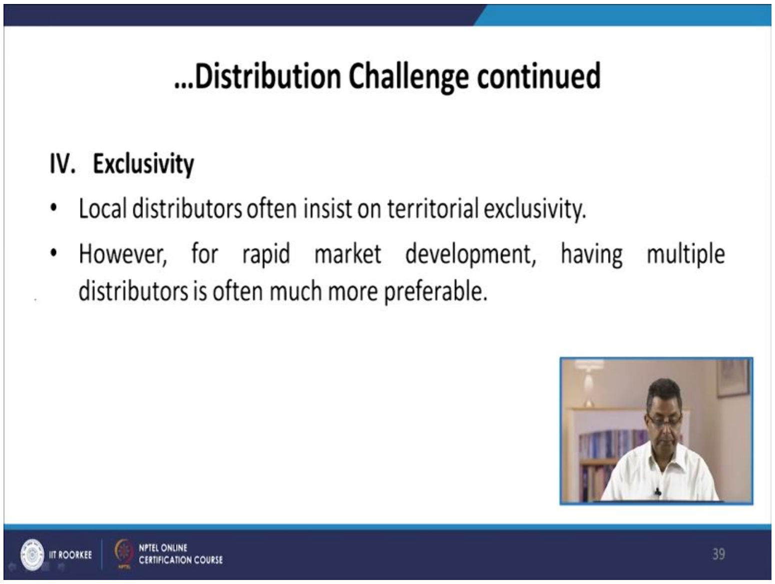
(Refer Slide Time: 20:25)



Another challenge that the multinational has to face is that of the local autonomy. So, the multinational's being unfamiliar with the emerging markets, local market environment delegate control over many marketing tasks for example, pricing and promotion to their local distributors. However the local distributors, typically focuses on short term sales revenue. So now, the problem is that because they the multinational they do not know about the local markets so they give autonomy for pricing and promotion to the retailers.

But retailers they look for short term sales revenues and profits and thus to safeguard the firms interest in the development of business it is better off to retain some control over some of the most critical marketing decisions.

(Refer Slide Time: 21:09)

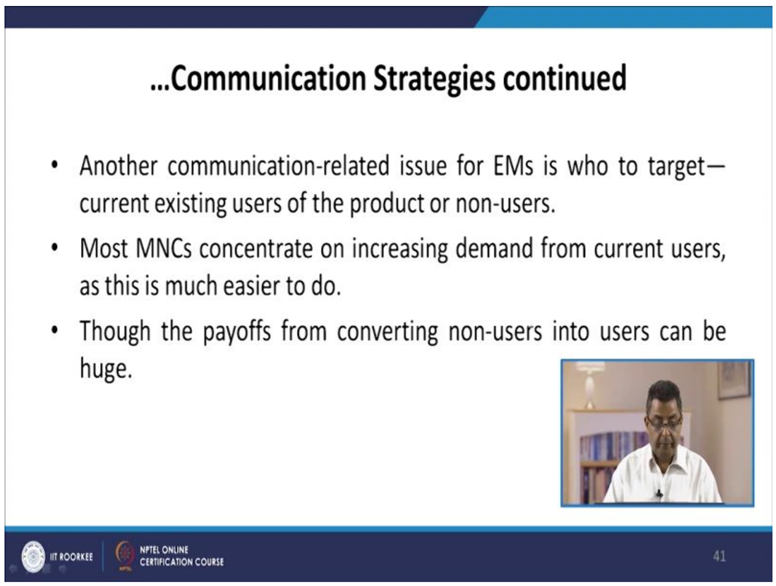


Then comes Exclusivity. Local distributors offer often insist on territorial exclusivity which means that there's a will there will be no other distributor within a particular Geographic area. However, for rapid market development, having multiple distributors is often much more preferable.

(Refer Slide Time: 21:29)

The next is the communication strategies that should be used in emerging markets. So marketing activities in emerging markets must accomplish several task for product categories that are novel to the local customers. First is that they have to educate the consumers about the product use and then the benefits of that product. Then they also have to raise brand awareness and thereby and then they have to create a brand image. So these are the three things that the multinational has to do in emerging markets. Challenge for multinational in emerging market is to prioritise these tasks.

(Refer Slide Time: 22:09)



Another communication related issue for emerging market is who to target current existing user of the products or non user of the product? Most multinationals they concentrate on increasing demand from the current users and thus it is much easier to do so though the payoffs from converting non-users into users can also be huge. So what generally companies do is that the first concentrate on the current users and when this market get saturated then they are going for converting non users into users.

(Refer Slide Time: 22:47)

And there can be two strategies push versus pull activities. Or recurring resource allocation dilemma that marketers face in emerging markets is the pull versus push issue. Should the company focus on consumer oriented solutions that is media advertising or trade oriented promotions? So should the target their promotion to the customers or to the trade. In most emerging markets the emphasis first often be on trade direct push type promotion as there are several reasons for this.

(Refer Slide Time: 23:22)

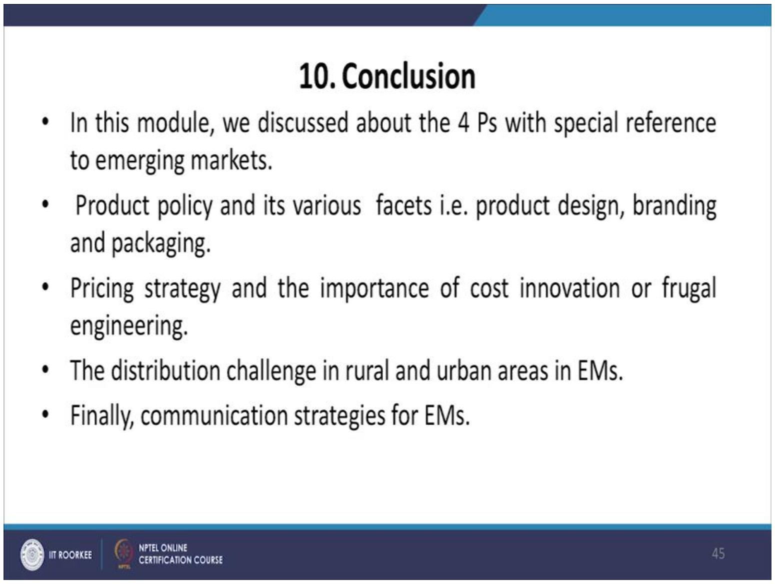
In many of these countries, the trade has immense power, especially in the rural area. Consumers interface directly with the retailers and often rely on their brand recommendation. So the consumers they ask the retailers which is the, which is the better brand, which is the best brand

and then they buy it. So therefore it makes sense for the multinationals to invest in retailers rather than in the customers. People shop much more frequently there in the west often on a daily basis. And the opportunity to switch brand arise much more often therefore, in-store promotions. That is point of purchase displays; video demonstrations have a heavy influence on their buying decisions.

(Refer Slide Time: 24:12)

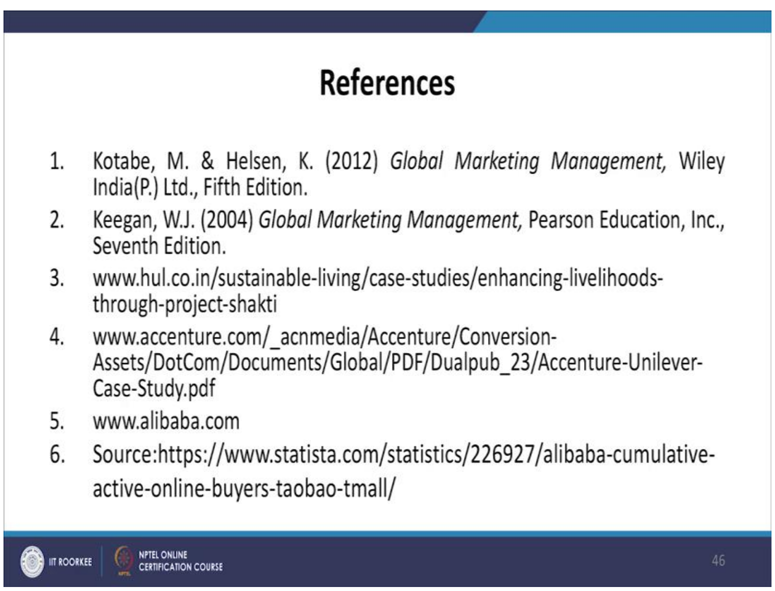
And for consumer oriented pull promotion activities mass media live TV and radio are often ineffective especially in countries like India where with its very diverse consumer groups instead targeted media like billboards are much more useful because they are more able to reach the target customers as compared to the TV and radio.

(Refer Slide Time: 24:24)



So to conclude in this module we have talked about the four P's. So we have seen the product policy and its various facets like product designing, branding and packaging. Then we have talked about the pricing strategy and the importance of cost innovation which is also called as frugal engineering. We have talked about the distribution channel in the challenges in the urban and rural areas and how to overcome those challenges and finally we have talked about the communication strategies that should be used for by multinational in emerging markets.

(Refer Slide Time: 24:56)



And these are the six sources from which material for this module has been drawn. Thank you.