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Opportunities in the Emerging Market Economies

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ABSTRACT

Emerging markets are an attractive opportunity for businesses to enter and invest in due to the rapid rise in development, high potential and a fast-paced high economic growth. Many developed markets are saturated with competition and slow economic growth, so the focus has shifted to developing markets, also known as the 86 percent markets as they consist of 86% of the total global population. Emerging markets are the future and they give a chance for companies to innovate and through the right strategies and solutions develop sustainable businesses for the future. Companies from developing countries have a greater chance to build successful businesses in other emerging markets than companies from developed markets because of experience and understanding of similar conditions, environment, etc. This paper gives a description of emerging markets, their characteristics and differences from developed markets. Emphasis is placed on how these markets are important due to the population size and rapid growth and how companies would benefit from the 86 percent solution. Challenges and opportunities that arise from facing them are explained with examples of how some brands have used these opportunities as entry strategies to tap into emerging markets.

Keywords: developing countries, economies, emerging markets, opportunities

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INTRODUCTION

Most global businesses focus on the developed markets as they feel that is where customers have higher purchasing power. This is mainly due to the high incomes and well-developed infrastructure in the developed markets which make these attractive. This has made these developed markets over competitive and saturated thus making the growth slow and in some cases stagnant. While the top businesses have been busy competing in these markets which is only 14% of the world's population, the rest of the world which forms 86% of the population has been growing tremendously giving rise to new, untapped avenues of growth and profitability. It has become imperative that companies start to focus on these emerging markets within the 86% because profits grow faster when the economic growth is higher and the economic growth in emerging markets is two to three times that of developed markets. Emerging markets have immense potential but it is essential to understand these markets before investing in them because they behave differently from the developed markets and thus companies require different strategies to be successful there.

LITERATURE REVIEW

A large part of research on emerging markets and ways that firms can benefit from these markets has focused on the internationalization of emerging market firms. Some researchers have attempted to change or extend existing theories on international business [1, 2], and others have attempted to bring alternative view points on the changing phenomena for multinational firms in different markets such as given in ref. [3]. Earlier studies on emerging market MNEs are based on a small number of case studies or atypical samples [4]. Primarily drawing on an institutional economics perspective, business groups constitute a micro-institutional environment for generating unique ownership, location, and internalization advantages, as well as for capitalizing on the linkage, leverage, and learning (LLL) opportunities, for internationalization [5]. An emerging market is a dynamic, fast and young market with high future potential. Traditional market selection methods tend to ignore these traits and focus heavily on political and macroeconomic factors. Sakarya et al. (2007) [6] presented a tool comprising of four specific criterions that can be used for a preliminary assessment of emerging markets for international expansion by firms. Case application by the mentioned authors exposed strong future market potential, manageable level of cultural distance, supportive and developing local industry and positive customer receptiveness for foreign products and business. Resource commitment is an important function of market opportunities and it is stronger for firms emphasizing demand-side gains [6]. Moreover, in a highly volatile industry, resource commitment is negatively associated with cultural distance, where as in a stable industry, it is positively associated with cultural distance. As foreign subsidiaries become older, the influence of cultural distance on resource commitment is reduced [7]. The transnational model of national responsiveness, global efficiency and worldwide learning may not be sufficient and in order to succeed in the low-income markets, it is important to have strategies that leverage strengths of the existing market and there by overcome weaknesses. Recommended strategies are developing relationships with non-traditional partners, co-inventing custom solutions, and building local capacity [8]. In a nut shell, the emerging markets and developing countries with their dynamism, enthusiasm and fast rising power in all respects not only calls for the world to pay attention but is like the “Bottom of the pyramid” for firms today, where the markets that may have been least explored, are the hub for the highest opportunities.

METHODOLOGY

The paper is based on external secondary research with an idea to gain understanding of strategies and techniques adapted by firms that want to enter into the fast growing and opportunity filled developing markets of the world. In order to do this, literature review of articles and books was done on the existing knowledge about emerging markets and opportunities. Themes were identified from the literature and the paper was hence based on the premise of trends, opportunities and strategies for and by companies to succeed in emerging markets. The book 86% Solution by Vijay Mahajan and Kamini Banga was closely referred and became a source of inspiration for developing the given article.

Characteristics of Emerging Markets

An emerging market economy is an economy with low or middle per capita income with per capita Gross National Product (GNP) of below \$10,000. These emerging markets make up 86% of the world’s population and this number is increasing day by day. Emerging markets are countries which are undergoing developments and reforms. Emerging markets are transitional economies transitioning from closed to open economies while still maintaining efficiency within the existing system. Apart from implementing exchange rate reforms, an emerging market economy is most probably obtaining aid and guidance from large donor developed countries and/or world organizations such as the

World Bank and International Monetary Fund. An increase in investment both foreign investment and local investment is relevant for emerging markets. An investment growth in a country shows that the local economy of the country is stable and has signs of profitable growth. Also, foreign investment is a signal that the rest of the world especially the developed nations have begun to take notice of that particular emerging market, and when international capital flows are directed toward an emerging market, the injection of foreign currency into the local economy adds dimensions to the stock market of the country and long-term investment. Investing in emerging markets is a win-win situation for both the investor as well as the market because for developed-economy businesses, an outlet is provided by the emerging markets for expansion, thus helping in diversification. For the recipient country, there is higher refinement of resources like increase in employment levels, labor and managerial skills, transfer and distribution of technology. Ultimately, the overall production levels would rise, enhancing its gross domestic product and thus, getting closer to that of the developed markets. High levels of market efficiency and strict standards in regulations might not be possessed by emerging markets especially in accounting and security sectors so as to be on an equal footing with advanced and developed economies, but they would, at least, have well-developed physical financial infrastructures because of its ability to attract foreign investment. Emerging markets are an attractive opportunity for investors because of the possibility of high profits, since faster economic growth ensures higher profits. On the other side, there is higher risk in investing in emerging markets due to political instability, local infrastructure problems and frequent fluctuations in currency valuation. Before investing in an emerging market, a business has to study the local environment thoroughly and then make a strategy based on the company's strengths. Some of the characteristics of emerging markets are – They are the world's fastest growing economies. By 2020, the output of the five largest economies would be 16% of global output. They are regional economic powerhouses in terms of large populations like 5 out of 7 billion world population, a larger resource base with 40% of global physical and technological resources, large markets which are more than $21 trillion. They transition from closed door policy to open door economic policy. They are strategic partners in geo-politics and global well-being. Political and social factors have to be considered when an emerging market transitions from a closed economy to an open economy. After the passing of multiple generations, foreign investment may revamp the society but a skeptic population worried about change might disrupt which may set back the development of the country.

The 86 Percent Solution

The emerging markets which consist of 86% of the world population and countries of less than $10,000 GNP have become the new places of opportunity as businesses are realizing the potential these markets have. Fifty percent of the global consumer class is from the developing countries. Even though companies have realized the potential of these developing markets many firms fail in their business there because the 86% markets act in another way from the 16% markets and so different strategies should be used in these markets that can be developed only after understanding these markets and their behavior.

Initially, most of the companies have focused on the developed market because that was where the money and purchasing power was. Now, the developing countries have also grown rapidly economically, and even though they are way off the $10,000 per capita GNP companies cannot afford to wait until then to capitalize on these markets. That would take a considerable amount of time during which many companies and brands would be established and grown increasing the competition and creating entry barriers. Although it would take a long time for these developing countries to reach the $10,000 mark due to the size of the population in the developing countries the number of rich people in these 86 percent markets might soon exceed the number of rich people in the 14 percent developed markets. The demanding environment in the developing markets help in producing cheaper and better products and help in establishing a base of support through which companies can enter developed markets as well. Even in the developing countries there are different consumer segments to cater to like the rich or premium segment, the middle-class, the poor or below poverty line and the rural consumer. For a company to be successful in these 86 percent markets they should understand the market conditions and the consumers first. These markets pose challenging conditions and so require different strategies to create solutions. These challenges help unearth hidden opportunities for businesses both for the consumer segments who are already rich and also the consumer segment of people rising from poverty.

Entry Strategies – Challenges in Emerging Markets and Opportunities They Offer

There are different challenges in the 86 percent or the emerging markets for businesses looking to invest in them environmentally, culturally, in infrastructure, in policies etc. But, these challenges can be converted into opportunities which then become entry strategies for the firms into these markets. Overcoming these challenges will give rise to innovative solutions which address specific problems.

Demanding Culture, Markets and Environment

The inferior infrastructure, lack of electricity, dust, heat and low budgets all put a strain on the products introduced into the developing markets. Even though the technology and development is low the consumers are very demanding and expectant of high value for low cost. The culture and traditions are also very different from the developed countries and so products and services should be tailored or adapted to these local markets. Social networks and influences have a crucial impact on adoption and growth of products and brands. The opportunity here is – ‘Don’t build a car when you need a bullock cart’: By overcoming these challenging conditions of poor infrastructure and high-demanding customers the companies can come up with an innovative product and service designs which would solve the customers’ problems. Sometimes the solution can be as simple and different as a bullock cart rather than a regular car which might come as a surprise and incomprehensible to a developed market but it has the potential to flourish in the developing market. Suggested strategies are:

- Recognize That Low Price Doesn’t Mean Low Quality – Establishment of Grameen banks in Africa, Bangladesh, etc. to help poor, rural people by giving them loans against no collateral; Establishment of SEWA in Ahmedabad, India which is a trade union for poor self-employed women workers; Building 550sq.ft homes in Mexico at 4000 Euro
- Create or Import Innovative Solutions – Developing disposable Oral-B toothbrush for the US market; Developing FLO: a folding bicycle for Brazil, Mexico and Scandinavian countries

- Cater to Customers Who Don't Know to be Customers – Advent of Amway in China and India; Domino's Pizza and McDonald's in Latin America and India; Jet Airways in India
- Respect the Power of Religion and Culture – Establishment of KFC in UK; WHO in Africa; Establishing Citibank in Malaysia through Islamic banking product; LG and Ilkone mobile offering Holy Quran in English in Islamic countries
- Look at The Deeper Meaning of Products – Introducing Mutli-ethnic Bratz dolls in MGA Entertainment in USA; Little Farah talking doll in Islamic countries

Fragmented Markets

Developing markets are very fragmented with international, national and local players. Of all these only a few brands have a considerable presence. Branding and marketing Strategy and portfolios need to be tailored to the fragmented market economy. The opportunity here is 'Connect brands to the market' – In developing markets, companies should tap into the power of regional communities by developing strong local brands or by effectively tailoring global brands to local markets. Suggested strategies are:

- Make Global Brands Local – Placing Feng Shui lions outside the HSBC Shanghai office; 40 different languages across the globe in Microsoft Windows Software
- Use Local Brands to Establish a Market – eBay through JV in India, China and South Korea; Group Danone through JV in China in bottled water business; Starbucks in India through JV with Tata Global Beverages
- Recognize Brands May Mean Something Different – McDonald's, Pizza Hut and Domino's are seen as upscale in developing markets
- Grow Your Own Local Brands When Possible – Nirma in Indian soap and detergent category
- Address the Liabilities of Global Brands – Mecca cola challenging Coca-Cola and Pepsi among Muslim customers; Court battle between Toyota vs. Geely in China
- Stretch Bands Without Breaking Them – P&G launching high end toothpaste Crest to low-end market in China
- Put the Brand on Wheels (or Legs) – P&G doing infomercials through vans in Rural India

Youthful and Growing Population

Developed countries like Japan, U.S and Europe face the problems of rapid aging of their populations and the pensions required to provide for them where as the emerging market economies are young and growing. Only 20–25% of people in the U.S are under the age of 14 whereas in India it is 33% (check), in Brazil 30% and 33% in Iran. Most of the world's population growth will take place in the developing nations. The opportunity here is 'Think Young' – Youth are globally attuned especially with the advent of mass media and social media but still there are differences between the youth of developing markets and youth of the developed markets. Companies need to understand these differences for a successful business. The large youth population opens up opportunities in various sectors like education, games, entertainment, Fashion, Food, Cafes, books, music, beauty products, etc. To cater to these young consumers the companies also should think young. Suggested strategies are:

- Focus on Youthful Products and Services – MTV Asia focusing on young idols and stars; Pokemon, Power puff girls across Asia; Sesame Street in South Africa, Egypt, Russia, etc.

- Understand the Influencers – 'Kotex finds period' ad in USA; Spiderman in India; Disneyland theme park in Hon g Kong.
- Recognize opportunities for Education – Kellogg and Wharton: ISB Hyderabad; Harvard University: Medical school in Dubai; INSEAD in Singapore; ESCEM and IIMA; Ahmedabad University, ESSEC and MICA.

Limited Income and Space

Although there are rising disposable incomes and cash inflow through investment in developing countries, the incomes and cash flows overall are still lesser than those in developed countries. Lower income limits purchase and purchase size. Developing countries have a larger population density so there is lesser space for everyone and so products are also bought in smaller sizes and smaller quantities. The opportunity here is 'Grow Big By Thinking Small' – So, to cater to lower incomes and lower space constraints several innovations can be done like reducing packaging size, using demand pooling, offering products at installments etc. Products can be tailored to fit into small spaces. Suggested strategies are:

- Fill the Just-in-Time Pantry – Cemex in Egypt, Indonesia, Thailand, Phillipines, etc.
- Use Small payments – Maruti Car in India; Magazine Luiza's in Brazil; Microfinanceer like Accion in Latin America, South Africa and BancoSol in Bolivia.
- Combine Products to Conserve Space – HP/Canon Scanner/Printer/Copier/Fax; Microsoft PC/TV/DVD/Phone.
- Streamline Offering to Make Them More Affordable – Imputer in India; PC Conectado in Brazil; Hub of used car markets in Europe:Poland; Low cost housing loans in Spain.
- Join Many Small Drops to Make an Ocean – ITC e-Choupal in India; Peruvian retailer E Wong: Small Grocers to supermarkets to hypermarkets.

Underdeveloped Infrastructure

The road connectivity is poor so many rural areas are inaccessible by automobiles and also they lack proper sanitation and electricity. Rapid urbanization has placed strain on the urban resources where the infrastructure is not able to keep up with density of people there. Most common problems are underdeveloped economic systems, restrictive regulations, power failure, poor transportation systems, lack of clean water and sanitation, etc. The opportunity here is 'Working With Technology' – The weak infrastructure gives opportunity for technological innovations to provide the much-needed systems like water purifiers, generators, inverter, etc. Suggested strategies are:

- Create Markets in The Gaps – Coca-Cola launched Ceil bottled water in Mexico; Visa international working with China Government for better accessibility; Cummins power customized gensets in Africa, Latin America and Middle East.
- Create Work Around Solutions – Gillette razor in India to overcome scarcity of running water; London's Freeplay developed no-electricity radio for Africa.
- Find Treasures in Trash – Recycling biomass waste into low-cost charcoal briquettes in Kenya.
- Build Infrastructure to Support the Business – Mittal Steel across the globe; Coca-Cola in Brazil with Tailor made vending machine and ice-box; McDonald's universal quality standards through local franchisees.
- Use Existing Infrastructure Creatively – NIIT in India, China and other Asian markets.

- Look for Opportunities in the Shadows – De Bon a South Korean cosmetic brand from LG corp in East Asia; Time Warner and New Corp adjusting to Intellectual Property Rights Violation globally.
- Recognize Unseen Rivals – Windows Lite in India and Russia to fight pirated software.

Weak Supply and Distribution Channels

Developing countries generally have weak distribution systems mainly due to infrastructure and technological limitations. The lack of proper media, roadways and electricity are also major barriers. The opportunity here is 'Take the Market to the People' – Existing systems in the developing world can be used as temporary distribution systems like small shops and market days especially in rural areas. Suggested strategies are:

- Position for *Paanwalas* – 6 million paanwallah outlets in India; 90% of retail outlets in Philippine's are sari-sari stores; 90% of beer distribution In China happens through tiny stores in Ningbo.
- Create Multiple Levels of Distributions – Project Shakti by HLL in India: 25,000 Shakti entrepreneurs, 100,000 villages and 100 million rural customers.
- Use Distribution Bubbles to Find Customers When They Are There – Mimicking popular songs to attract customers in Berber festival in Morocco; Mutli-level distribution by Unilever in Ghana, India.
- Take the Bank Out of the Branch – Citibank Suvidha in India; Home delivery by Pizza Hut and Domino's in India.
- Develop on-the-Ground Insights – Aramex International in 37 countries in transportation and logistics management.
- Use Existing Networks Creatively – Elle 18 selling cosmetics through Barista in India; SAB Miller selling beers through small outlets in across 40 countries; Pepsi: Mobile Marketing in East Asian countries; 'dabbawala system' in Mumbai, India.

Rapidly Changing Markets

The emerging markets are still developing and although it will take several years to be completely developed these markets will continue to change rapidly. The pace and scope of this development will depend on various factors like government policies, business practices, culture etc. Rising disposable incomes and rapid economic growth will change consumer behavior, societal norms etc. and will have new challenges and opportunities at every stage of development. The opportunity here is 'Develop with the Market' – Companies should evolve their businesses so as to meet the changing needs of the market at each stage of development. This provides the opportunity to experiment with new products and business models and adapt successes to other developing or developed markets. Companies can also implement successful strategies in developed markets to the emerging markets at a later matured stage of development. Suggested strategies are:

- Look for Patterns of Change – Increase in Per Capita income; Adopting to social shifts which can lead to business opportunities.
- Develop Solutions with Government, NGOs and Other Players – UNICEF in African countries; DFID in India; Bill and Melinda Gates foundation for AIDS across the world.
- Exporting Success – Maruti 800 in Africa, Latin America and Asia; Armored cars from Brazil to other developing countries.
- Look for Opportunities for "Reverse Colonization" – English language in

India boosting BPO industries worldwide.
- Address the Growing Pains – Increasing importance to infrastructure leading to Airbus and Boeing's business in China and India.
- Export Products to the Developed World – Sturdy Mahindra Tractors in USA; Lenovo Buying IBM's PC unit to become the world's leading computer maker.
- Import Customers from the Developed World – Health tourism in India; Novartis, Pfizer and Roche in India and China for R&D.

North-South FDI and South-South FDI

New importance was placed on South-south FDI that is, foreign investment from developing countries to other developing countries, due to the fact that outflows from emerging markets were least affected by the contraction in FDI flows in 2009 as compared to FDI flows from developed countries. This might be due to the fact that affiliates in developed countries were more dependent on reinvested earnings as a source of growth in FDI that affiliates in developing countries. Any firm, be it from developed or developing country needs to have certain firm-specific assets to compete with the local firms in any foreign market. It is sometimes difficult for South-South FDI because companies from the developing countries tend to have weaker brands names and inferior technologies compared to companies from developed countries. Also, the governments sometimes favor investments from developed countries through licenses and subsidies because they believe that these companies from developed countries would bring superior technology and wider international distribution. There are some factors that actually favor South FDI especially South – South FDI. This is because developing countries have poor infrastructure, lack of developed market mechanisms, poorly developed property rights, etc. that a foreign investing company should look into and overcome difficulties posed by these factors. So, when firms in developing countries invest in other developing countries the previous experience of working in similar conditions would turn out to be an advantage and can adapt well to the environment than a firm from a developed country. When developing country firms invest in other developing countries, they tap larger markets, allocate their resources more efficiently, gain access to new resources and skills, and mitigate risk through diversification. They may also access strategic assets such as intellectual property, business models, and distribution networks. Companies from developed countries are less experienced at working in ill-functioning markets and might face more difficulties entering into and growing in developing countries. But, similarities between culture and development in technology might give rise to potential spillover to local firms. The effects that foreign investment has on the local economy both North-South FDI and South-South FDI depend on the country in question.

Conclusion: Emerging Markets – Optional or Necessity?

The strategies and solutions for the emerging markets or the 86 percent markets are different from those for the 14 percent developed markets and requires creativity, drive to achieve and overcome challenging conditions, and to the local conditions. Developing countries should be able to solve their own problems and issues rather than look for solutions or help from the developed countries. This would be possible only through fostering the spirit and environment for entrepreneurship. Several companies such as Unilever, Nestle, Nokia, LG etc. which used to operate in small domestic markets after establishing a broad base have moved to the international markets to expand for newer opportunities. A lot of international companies started expanding into India because of higher disposable incomes and rapidly growing economy, like Starbucks which entered India through a JV with Tata Beverages to gain local expertise, GAP, H&M and Wendy's expanding into India due to the rising disposable incomes and exposure to brands through different media. Company leaders should develop awareness of the environment and working of the developing markets so as to understand which kind of solutions work in these markets. PricewaterhouseCoopers(PwC) has developed a program called the 'Ulysses Program' which tests the talents of high-potential, mid-career consultants in extreme conditions and lets them experience the realities of developing markets. Due to the challenging conditions in these emerging markets there is a huge scope for innovation and new business models to come up with solutions which improve the quality of life here. The emerging markets are young and growing rapidly and only companies that develop the right strategies and solutions to meet their needs and solve their problems will achieve sustainable growth in the long run.

Limitations and Scope for Future Research

The present paper is based on secondary information from multiple sources and attempt to give an understanding of the connect that can be built between aspiring enterprises and lucrative opportunities that stay hidden in the opportunity-filled countries that are named as developing countries. Primary study in a fast-developing market such as India can be useful for enterprises and the government. It would be of value to understand how the dynamic and fast-changing last decade has altered the perception of multinationals to enter India and strategies that they follow to make the best of a lucrative, digitally advanced and young developing nation such as India.

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