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3 | 2012 ▪ Die Kontinentalverschiebung im Werkzeugmaschinenbau ▪ Consumer Preferences for Product Transparency in Emerging Markets ▪ Kaufmotive indischer Nachfrager ▪ Strategien des Markteintritts in die BRIC-Staaten ▪ Managing in Complex Operating Environments ▪ The Bumpy Road to India ▪ Liberalisierungstendenzen in Indien ▪ Geschäftsmodelle in Emerging Markets ▪ Interview with Dr. Jagdish N. Sheth of Emory University

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Emerging Markets

MÄRKTE UND KUNDEN

Asien wird im Jahr 2014 mit 65 % des Weltmarktpotenzials die wichtigste Absatzregion für Werkzeugmaschinen sein. Die Branche muss ihr Marketing neu auf die Anforderungen der asiatischen Kunden ausrichten. Der Beitrag skizziert die Anforderungen des asiatischen Marktes am Beispiel eines mittelständischen Werkzeugmaschinenherstellers.

BRINKEN

Industrienationen wie Deutschland drängen zunehmend in wachstumsstarke Länder wie Indien. Bisher ist jedoch wenig bekannt über die Kaufmotive indischer Nachfrager. Deshalb haben die Autoren eine empirische Studie in Indien durchgeführt. Die Ergebnisse zeigen: Wer die emotionalen Bedürfnisse indischer Konsumenten nicht versteht, wird keinen Erfolg haben.

BECKER | BURMANN

For retailers moving into an emerging market it is crucial to understand whether topics relevant in developed countries are important there as well. One of these topics is the increasing demand for product transparency. The results of a study with early adopters of modern retail formats in India show that even in an emerging market like India, consumers highly value the disclosure of product-related information.

MOSER | SCHAEFERS | MEISE

Indien ist mit seiner geografischen Struktur, den Kaufkraftunterschieden, Religionen, Sprachen und Kulturen ein besonderer Markt. Der Beitrag analysiert den indischen Einzelhandel sowie die wichtigsten nationalen und ausländischen Wettbewerber. Dazu werden die Handelsformen sowie die politisch-rechtliche Situation und deren Problematik untersucht und Szenarien für den indischen Einzelhandel vorgestellt.

LEHNERT | ZENTES

MARKTEINTRITT

This article is based on a study involving 45 senior Swiss and Indian executives and discusses the key market entry challenges for Swiss SMEs in India. Study respondents rate the market evaluation phase as most important for the overall market entry success. In this phase, marketing expertise is of great relevance for successfully preparing the market entry from the outset.

IMBACH | MOSER | REHBOCK | RUIGROK

Ausländische Direktinvestitionen in den BRIC-Staaten haben in den vergangenen Jahren deutlich zugenommen. Neben hohen Wachstumsraten sind ausländische Unternehmen mit großen Unsicherheiten in diesen Märkten konfrontiert. Die Autoren zeigen empirisch auf, welche Markteintrittsstrategien für einen Marktstart in den BRIC-Staaten geeignet sind und den größten Markterfolg erzielen.

HOLTBRÜGGE | BARON

BUSINESS MODELS

As companies are looking for growth opportunities, their focus shifts from the developed world to developing markets, sometimes even to so-call complex operating environments: conflict zones, urban slums and deep rural areas. To thrive in these segments, companies have to be willing to cooperate with local partners, collaboratively develop business models and build local capabilities.

KUPP | ANDERSON

Emerging Markets bieten Unternehmen vielfältige Chancen, um neue Geschäfte aufzubauen. Allerdings stehen Unternehmen hier Herausforderungen gegenüber, die besondere Anforderungen an die Geschäftsmodelle stellen. Der Beitrag beleuchtet einige dieser Herausforderungen näher und stellt erfolgreiche Geschäftsmöglichkeiten für Emerging Markets vor.

SCHALLMO | MOSER | BRECHT

INTERVIEW

Dr. Jagdish N. Sheth, Professor of Marketing at Emory University, discusses the key success factors for business in emerging markets.

RUBRIKEN

» Emerging markets are becoming core business for multinationals «

Despite the emerging economies' growth potential, an increasing number of multinational companies operating in such highly diversified markets face significant risks and challenges with regard to their marketing approaches. In the following interview, Dr. Jagdish N. Sheth, Charles H. Kellstadt Professor of Marketing in the Goizueta Business School at Emory University, discusses the characteristics and key success factors for business in emerging markets.

MRSG: Why are you interested in the topic of marketing in emerging markets? What are your contributions and particular interests in this domain?
Sheth: I became interested in emerging markets in the early nineties based on my research on the geoeconomic realignment from East–West to North–South (Sheth/Sisodia 2006). I was doing policy work and came to realize that the economic growth of all advanced countries will slow down due to the aging population. My interest in emerging markets grew further as I began to research the rise of China and India as the largest consumer markets for most products and services ranging from cell phones to appliances to automobiles to branded packaged foods (Sheth 2008). Also, I foresaw that there will be a rise of multinationals from emerging markets including China, India, Brazil and South Africa. Examples include the Tata Group in tea and steel; the Aditya Birla Group in aluminum and carbon black; Airtel in mobile services; Haier in appliances; and InBev and SAB in beer. Finally, I began to conceptualize and research the impact of emerging markets on marketing practices and perspectives (Sheth 2011). My research suggested that five unique characteristics of emerging markets (unbranded competition, chronic shortage of resources, social political governance of markets, market heterogeneity, and inadequate infrastructure) will result in product and channel innovation in order to overcome affordability and accessibility obstacles inherent in emerging markets.

The term „emerging markets" has been used inconsistently in marketing practice. How do you define and classify emerging markets?
I define emerging markets as being in transition from an agricultural to an industrial economy with the following discontinuities: from making to buying; from nonusers to users; and from unbranded local to branded national or global products and services. In other words, emerging markets consist of first-time buyers of branded products and services for everything including necessities such as food, shelter and clothing as well as discretionary goods and services such as cell phones, motorcycles, education, healthcare and professional services.

Dr. Jagdish N. Sheth

is the Charles H. Kellstadt Professor of Marketing in the Goizueta Business School at Emory University. Prior to his present position, he was at the University of Southern California (7 years), at the University of Illinois (15 years), and on the faculty of Columbia University (5 years), as well as the Massachusetts Institute of Technology (2 years). Dr. Sheth is well known for his scholarly contributions in consumer behavior, relationship marketing, competitive strategy, and geopolitical analysis. He is a highly sought after keynote speaker at many industry, academic and public forums, and he has worked for numerous industries and companies in the United States, Europe and Asia, both as an Advisor and as a Seminar Leader.

The growth of emerging markets offers new opportunities as well as challenges for companies and their marketing practices. What are the key characteristics distinguishing marketing in emerging markets from more mature markets?

As I mentioned earlier, there are five unique characteristics of emerging markets: unbranded competition, chronic shortage of resources, social political governance of markets, market heterogeneity, and inadequate infrastructure. These five characteristics generate challenges in terms of offering products that are affordable, accessible and acceptable. Neither extension nor localization of advanced country products or services is sufficient. You need to innovate and make sure they are affordable and accessible especially to rural, undeveloped markets with incomes below the official poverty level of $ 2/day. Surprisingly, when aggregated, this base-of-the-pyramid market amounts to more than five trillion dollars globally.

» The generation divide in emerging markets is wider than the Grand Canyon and it is rapidly increasing at ever shorter intervals. «

It can be assumed that common data collection methods cannot be easily applied in emerging markets due to the high degree of within-country heterogeneity including aspects as education and lack of infrastructure. What challenges do you perceive with regard to primary and secondary data collection?

The main challenge of doing research in emerging markets is lack of access to respondents. There are no organized household or business lists comparable to Equifax, Donnelly Marketing or Dunn & Bradstreet. This also results in a lack of proper sampling and representation. A second problem is that most primary research is based on survey instruments which presume 100% literacy. This is not the case in emerging markets. Finally, there are strong language, religion and cultural differences between advanced and emerging markets. As Ghemawat (2001) states: "Distance still matters." There are similar challenges with secondary data ranging from the census data to financial reporting. Most of the marketing support institutions which generate secondary data are still nascent. Further compounding factors are accuracy, access and freshness of secondary data.

What are the factors affecting the heterogeneity of emerging markets and how can companies create a differential advantage with regard to the high heterogeneity?

The heterogeneity of emerging markets is bewildering. Most of them are unorganized bazaars and competition is highly local in nature. As I have mentioned in a recent paper (Sheth 2011), the real competitive advantage is aggregation of demand through standardization and branding. This is most obvious in the mobile phone and consumer electronics markets.

In comparison to more mature markets, emerging markets are characterized by a large percentage of consumers below the poverty level and by the emergence of a new middle-class consumer segment. Can you specify marketing approaches which are necessary to achieve inclusive growth?

There are several ways to achieve inclusive growth. The first is grass roots innovation in products, channels and promotion. Second, making the product or service affordable through low-cost innovation. Third, developing merchant–consumer channels such as independent agents for insurance, cosmetics or jewelry. Finally, making sure that local community leaders become early adopters and advocates of your offerings.

Considering the diverse and competitive nature of developing countries, companies have to develop strategic approaches to concentrate resources on the most promising submarkets. Can you recommend specific strategies to identify the adequate customer segments in emerging markets?

There are several ways to segment the emerging markets. The simplest segmentation is rural vs. non-rural markets. This is because channels of distribution and promotion vary a great deal between the two, and competition is local in rural markets whereas it is more likely to be national in urban markets. Another way to segment emerging markets is by generation, usually defined by age cohorts. The generation divide in emerging markets is wider than the Grand Canyon and it is rapidly increasing at ever shorter intervals. In India, for example, the generation divide is as short as eight years: the older sister is unable to relate to the younger sister in lifestyle and, more importantly, in family values. A third way to segment the market is traditional, transitional and aspirational segments. As the names imply, the traditional segment prefers the status quo; the transitional segment wants to modernize; and the aspirational segment is driven more by wants than needs and resources. However, I have found that the best way to segment markets in emerging economies across household and business markets is by value (performance/price ratio). It usually divides into three segments: premium, value and price segments. In emerging markets, at the early stage of the product life cycle, price and premium segments are the usual extreme polarities. However, over time, the industry converges toward the value segment.

The term „glocalization" implies that companies develop new products or services and adjust their marketing practices based on local conditions. Considering the rapid growth of EMs, do you think that this approach is still relevant? If not, can you describe alternative marketing practices?

Glocal (think global, act local) marketing was very appropriate until the nineties due to significant tariff and regulation barriers anchored to social and ideological policies of governments. This was exemplified by the Soviet Union, China, India and Brazil. However, with liberalization of trade, privatization of public sector enterprises, and outsourcing of manufacturing (and now services) to emerging markets, glocal marketing practice has become less useful. Instead, many multinationals such as General Electric and Procter & Gamble are developing and designing products specific to large emerging markets by focusing on affordability and accessibility. Once they are successful in countries such as China and India, they engage in reverse innovation by marketing them to other markets. This has been very successful for companies like Huawei Technologies in the telephone infrastructure industry. What they learned in the Chinese market is becoming very useful in Africa and India. Similarly, Airtel, an Indian mobile phone operator, learned to survive and thrive in India and now they are the second or the third largest operator in Africa, competing with Vodafone.

Companies have to review their traditional communication channels due to the lack of adequate infrastructure in EMs. Which communication channels gain in importance? Can you specify a best practice of a company with an innovative communication approach?
Lack of traditional communication channels has encouraged companies to improvise and introduce new and disruptive channels of communication. For example, Avon Products has developed one million agents in the most remote parts of the Amazon to overcome communication and distribution barriers. Brazil is now the largest market for Avon products. Similarly, the Life Insurance Corporation of India (LIC) has the largest network of life insurance agents in the world who sell policies to households in middle to lower middle classes in both rural and urban India. Finally, the most innovative companies all over the world have been the mobile phone operators who have used mobile marketing and agency systems to provide their services to everyone. In June 2011, I went on safari in Tanzania and was utterly surprised to have smartphone broadband coverage from Airtel and Vodafone!

William Egbe, president of Coca-Cola South Africa, stated that a company's support of the socioeconomic development of the surrounding communities is fundamental to establishing a sustainable business in Africa. What implications does the significance of stakeholder relations have on marketing practice? Further, considering the enhanced emphasis on social connectedness, what impact does the importance of strong relational networks have on the traditional concept of relationship marketing?
In emerging markets, it is equally if not more important to establish relationships with social institutions and local community leaders including the church, mosque or temple, as well as the village council or the village elders. For relationship marketing, it implies that you must achieve relational excellence with both the institution and the individual members. This is common in business marketing where you have both the procurement department as well as end users as customers. This is also a key criterion for the success of the Card Division of American Express: both the merchants and the users are customers. It is also generally true where the user is not the payer or the buyer; for example, in healthcare services.

While many emerging countries in Africa are facing political troubles, wars, and natural disasters, these countries are among the fastest-expanding economic regions today. What are the key success factors companies have to consider when entering these highly diversified African markets?
The key success factor for the highly diversified African markets is: think local, act local. It requires decentralized marketing operations, possibly multiple brands but centralized processes, procurement and value chain functions. It also requires rotating both staff and line managers across diverse geographies of Africa. However, the real success factor is the management mindset. There is a famous anecdote about Bata Shoe Company. They sent a business development person to Africa. He came back with the observation that most Africans walk barefoot and, therefore, there is no market opportunity. A few years later, the company sent another sales executive and his observation was since most Africans walk barefoot, what a great market opportunity!

» Emerging markets will encourage companies to think seriously about sustainability and corporate social responsibility. «

NGOs worldwide have adapted modern business practices with social purposes in order to address the needs of the base-of-the-pyramid market. What can traditional businesses learn from their marketing strategies?
There are several lessons traditional marketers can learn from NGOs. First, purpose-driven marketing will succeed better than product-driven marketing. Second, it will require passionate leadership to serve the neglected segments. Third, learn to practice frugal marketing by leveraging external resources and relationships.

Customer satisfaction has been regarded as a key marketing strategy representing a determinant of brand loyalty. What role does the traditional concept of customer satisfaction have in EMs considering their unique characteristics?
In emerging markets, it is equally, if not more important to shape customer expectations and not just exceed customer expectations. The heterogeneity of customers in their needs/wants as well as their lack of ability to pay, will require market-driving as well as market-driven strategies and tactics.

In traditional marketing, innovation in terms of quality, technical performance, or image has been conceptualized as a key factor contributing to competitive advantage. Do you think that companies have to redefine the concept of innovation from the perspective of emerging markets?
Innovation in emerging markets requires developing an acceptable quality level at affordable prices. This means price-minus costing instead of cost-plus pricing. It requires thinking of mass mar-

kets as opposed to niche markets. In fact, in the pioneering days of American industrialization, this was the key to success for Kodak in the camera market, for Ford with the Model T in the automobile market, and for Timex in the watch market.

Companies such as Tata from India or Huawei from China have been successful in competing with established global players. Do local companies in emerging markets benefit from a redefined country-of-origin advantage? What can Western companies learn from local companies?

Competitors from large emerging markets have a distinct home turf advantage of both market effectiveness and volume efficiency. This is how Haier from China has become the world's volume leader in appliances; and India leads the world in tea, motorcycles and small car components. This is a key advantage where economies of scale through volume matter, as in consumer electronics, digital cameras and cell phones. In addition, companies from emerging markets gain further competitive advantage by going to other emerging markets, as Huawei and HTC have successfully demonstrated. Finally, in advanced markets they tend to compete either through acquisitions or on price.

In your article „Impact of Emerging Markets on Marketing: Rethinking Existing Perspectives and Practices" (Sheth 2011) you pose a critical question: Will the emerging markets be driven by marketing as we know it today, or will the emerging markets drive future marketing practice and the discipline? Can you give us a conclusive answer?

In my view, emerging markets will drive marketing for several reasons. First, they are no longer peripheral to the future of multinational companies; they are becoming core business for multinationals from advanced countries such as Coca Cola, Unilever, IBM, Siemens, General Electric, Ariva and EADS. In fact, more than 70 percent of their revenues are likely to come from emerging markets by 2020. Second, it is a lot more affordable to innovate in emerging markets. New product failures in emerging markets are a universal phenomenon but the failures are a lot less costly. Third, emerging markets expand the total size of the market and, therefore, it becomes a positive sum game among competitors, both domestic and global. This has been clearly demonstrated for cell phone products and services. Finally, emerging markets will encourage companies to think seriously about sustainability and corporate social responsibility. In fact, companies such as Kimberly Clark now have a Chief Sustainability Officer reporting directly to the office of the CEO. This is reminiscent of the appointment of corporate quality czars in the eighties.

The interview was conducted by You-Cheong Lee.