
MARKETING STRATEGIES FOR EMERGING MARKETS



CHAPTER OVERVIEW

1. EMERGING MARKETS
2. COMPETING WITH THE NEW CHAMPIONS
3. TARGETING/POSITIONING STRATEGIES IN EMERGING MARKETS—BOP OR NO BOP?
4. ENTRY STRATEGIES FOR EMERGING MARKETS
5. PRODUCT POLICY
6. PRICING STRATEGY
7. THE DISTRIBUTION CHALLENGE
8. COMMUNICATION STRATEGIES FOR EMERGING MARKETS

As developed countries are getting saturated, multinationals have increasingly set their sights on the fast-growing emerging markets (EMs) in Asia, Latin America, the former East Bloc countries, and Africa. McDonald's restaurant in central Moscow's Pushkin Square is the chain's busiest one in the world.¹ Mars sells more cat food in Russia than anywhere else in the world.² Inditex of Spain, one of Europe's leading clothes retailers, owns the fashionable Zara brand. In March 2009, the retailer announced that half of the 125 to 135 new Zara stores that it planned to open would be in Asia, with a heavy emphasis on China. In 2010, the company would also start rolling out Zara stores in India under a joint venture with the Tata Group.³ Around the same time, Lenovo, the personal computer maker, revealed a new organizational structure with the creation of two new business units, with one unit focusing on customers in emerging markets and the other centered around consumers in mature markets.⁴

¹“Russia's Consumers Come of Age,” www.ft.com, accessed on April 2, 2009.

²“Brands Make a Dash into Russia,” www.ft.com, accessed on April 2, 2009.

³“Inditex Chief Tailors Its Strategy,” *Financial Times*, March 26, 2009, p. 19.

⁴“Lenovo Restructures Into Two Units,” www.scmp.com, accessed on March 27, 2009.

industrialized nations,¹² by 2027.¹³ In 2005, Goldman Sachs introduced the concept of the **Next Eleven** (N-11). These are 11 countries that, as the acronym suggests, will follow in the footsteps of the BRIC in rivaling the G7. The eleven countries is a very diverse mix that includes: Bangladesh, Egypt, Indonesia, Iran, Korea, Mexico, Nigeria, Pakistan, Philippines, Turkey, and Vietnam.¹⁴

As we hinted above, the term “emerging markets” has lost some of its meaning given the wide mix of countries that are often classified as such. As a result, it is hard to find common ground among emerging markets. Even classifying them as high-growth countries has become questionable in recent years. During the Asian financial crisis in 1997/98, many of the so-called Asian Tigers stopped roaring. The economies of some of them rebounded a bit after the crisis but most of them never fully recovered. More recently, the global economic downturn did not spare the emerging markets: except for China and maybe a few other emerging markets. Most EM economies became very weak and started submerging with negative growth rates. Still emerging markets share certain characteristics. In particular, they seem to have the following properties:

1. *Low per capita incomes but rapid pace of economic development.* Per capita incomes are still much lower in most EMs than in developed nations (see column 3 of Exhibit 18-1). Obviously, low incomes pose an upper limit on purchases. Still, the incomes in most of these countries are surging rapidly, as shown in **Exhibit 18-1** (column 4), leading to a strong and growing middle-class population. Goldman Sachs estimates that the global middle class, defined as people with annual incomes ranging from \$6,000 to \$30,000, is growing by 70 million per year. The bank foresees that another 2 billion people will join the group by 2030.¹⁵
2. *High income inequalities.* The last column of Exhibit 18-1 shows the Gini index, a statistic often used to measure the degree of income inequality in a country. The higher the value of the Gini coefficient, the more income inequality.¹⁶ As you can see, most EM countries register much higher values for the Gini index than developed nations.
3. *High rates of emigration to the developed world.* Many low per-capita income EMs also export their people. Mexico and other Latin American countries export agriculture workers to the United States; the Philippines exports nurses and teachers to North America and Western Europe; South Asian countries export construction workers to the Middle East. Money sent home by these migrants (“remittances”) is an important part of their home countries’ economies. For instance, remittances accounted for 13 percent of the Philippines’ GDP in 2007.¹⁷ Globally, the World Bank estimated that money sent home by these immigrants was \$305 billion in 2008.¹⁸ Apart from their financial impact, these immigrants also form global diasporas, which companies can leverage.
4. *Populations are youthful and growing.* Populations in most emerging markets are younger and growing much more rapidly than in the Triad region.¹⁹ This is illustrated in Exhibit 18-1, which shows the population growth rate (column 2) and median age (column 3) for several emerging markets. Most of these countries have population growth rates of 1 percent or more, with a median population age between 20 and 30 years. The exceptions are the former Communist East Bloc countries.
5. *Weak and highly variable infrastructure.* The infrastructure in many of the countries is underdeveloped. Transportation networks such as roads, airports, and railroads

¹²The G7 consists of Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.

¹³Jim O’Neill, “The New Shopping Superpower,” *Newsweek*, March 30, 2009, p. 17.

¹⁴<http://www2.goldmansachs.com/ideas/brics/BRICs-and-Beyond.html>

¹⁵“The Expanding Middle: The Exploding World Middle Class and Falling Global Inequality,” Goldman Sachs, Global Economics Paper No: 170, July 7, 2008.

¹⁶http://en.wikipedia.org/wiki/Gini_coefficient.

¹⁷<http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1199807908806/Top10.pdf>

¹⁸<http://peoplemove.worldbank.org/en/content/remittances-expected-to-fall-by-5-to-8-percent-in-2009>

¹⁹The United States, Japan, and Western Europe.

Characteristics of Emerging Markets

EXHIBIT 18-1
 ECONOMIC AND DEMOGRAPHIC COMPARISON EMERGING MARKETS
 VERSUS G7 COUNTRIES

Countries	Population		Per Capita	GDP—Real	Gini Index
	Growth (09 est.) (%)	Median Age (09 est.)	GDP (PPP) (08 est.) (US\$)	Growth Rate (08 est.) (%)	
Emerging Market Countries					
Argentina	1.05	30	14,500	6.6	49
Brazil	1.20	28.6	10,300	5.2	56.7
Chile	0.90	31.4	15,400	4.0	54.9
China	0.66	34.1	6,100	9.8	47
Colombia	1.38	27.1	9,000	3.5	53.8
Czech Republic	-0.09	40.1	26,800	3.9	26
Egypt	1.64	24.8	5,500	7.0	34.4
Hungary	-0.26	39.4	20,500	-1.5	28
India	1.55	25.3	2,900	7.3	36.8
Indonesia	1.14	27.6	3,900	5.9	39.4
Malaysia	1.72	24.9	15,700	5.5	46.1
Mexico	1.13	26.3	14,400	2.0	47.9
Morocco	1.48	25	4,000	5.3	40
Pakistan	1.95	20.8	2,600	4.7	30.6
Philippines	1.96	22.5	3,400	4.6	45.8
Poland	-0.05	37.9	17,800	5.3	34.9
Russia	-0.47	38.4	15,800	6.0	41.5
South Africa	0.28	24.4	10,400	3.7	65
Thailand	0.61	33.3	8,700	3.6	42
Turkey	1.31	27.7	12,900	4.5	43.7
G7 countries					
Canada	0.82	38.1	40,200	0.7	32.1
France	0.55	39.4	32,700	0.7	32.7
Germany	-0.05	43.8	34,800	1.7	27
Italy	-0.05	43.3	31,000	0.0	32
Japan	-0.19	44.2	35,300	0.7	38.1
United Kingdom	0.28	40.2	37,400	1.1	34
USA	0.97	36.7	48,000	1.4	45

Source: Based on figures reported on <https://www.cia.gov/library/publications/the-world-factbook/>, accessed on March 26, 2009.

are low in coverage and fragile. Likewise, basic utilities such as water supply and electricity are in short supply. Telecommunications networks and internet access often lag far behind the grids of mature markets in terms of coverage and technology. This is indicated in **Exhibit 18-2**, which contrasts mobile phone and internet penetration between ten emerging markets and the G7 countries. Multinationals doing business in these areas need to come up with creative solutions to cope with these kinds of infrastructure weaknesses.

6. *Technology is underdeveloped.* Most of the countries also lag behind mature markets in the area of technology. This is the case both on the supply side (infrastructure, innovation) and the demand side (adoption of new technologies). On the supply side, most R&D spending and innovation are still centered in developed countries. This is especially true in high-tech industries such as information technology, biotech, and telecommunications. However, without the legacy of old technologies, companies doing business in the countries often can leapfrog old technologies. Indeed, a recent study that analyzed the mobile technology in various countries found that the BRIC countries appear to lead in mobile technology service breadth through innovation and the introduction of a wider variety of services than developed nations.²⁰ Research

²⁰ Alina Chircu and Vijay Mahajan, "Revisiting Digital Divide: An Analysis of Mobile Technology Depth and Service Breadth in the BRIC Countries," University of Texas Austin, working paper, 2007.

EXHIBIT 18-2**MOBILE PHONE, INTERNET & BROADBAND PENETRATION IN TEN EMERGING MARKET COUNTRIES VERSUS THE G7 COUNTRIES (2007)**

Country	<i>Mobile Phone</i>		<i>Broadband</i>
	<i>Subscribers Per 100 Inhabitants</i>	<i>Internet Subscribers per 100 Inhabitants</i>	<i>Subscribers per 100 Inhabitants</i>
Emerging Market Countries			
Brazil	63.1	35.2	3.5
China	41.2	16.0	5.0
Egypt	39.8	13.9	0.6
India	20.0	6.9	0.3
Indonesia	35.3	5.6	0.1
Mexico	62.5	20.7	4.2
Nigeria	91.5	6.7	–
Russia	114.6	21.0	2.8
South Africa	87.1	8.1	0.8
Turkey	82.8	16.2	6.1
G7 Countries			
Canada	61.7	73.0	27.6
France	89.8	51.2	25.2
Germany	117.6	72.0	23.7
Italy	153.1	54.3	18.4
Japan	83.9	68.8	22.1
United Kingdom	118.5	72.0	25.7
USA	83.5	72.5	23.9
Worldwide	50.1	20.9	5.4

Source: www.itu.int

studies done by Tellis and his colleagues also shows that consumers in emerging markets tend to be less eager to adopt new products than their counterparts in developed countries. One measure his team developed is the mean time-to-takeoff for new products, meaning the number of years for sales of the new product to start taking off (see also Chapter 10). Developed countries have relatively low time-to-takeoff: 5.4 years for Japan, 5.7 years for Norway, and 6.1 years for the Netherlands, Denmark, and the United States. Countries with fairly long time-to-takeoffs are all EMs: 12.4 years for India, 12.6 years for the Philippines, 13.6 years for Indonesia, and 13.9 years for Vietnam and China.²¹

7. *Weak distribution channels and media infrastructure.* Compared to developed countries, distribution and media infrastructures in EM countries are largely underdeveloped. Especially in rural areas, distribution is often very inefficient. Lack of adequate distribution channels means that companies often have to set up their own distribution. However, the distribution environment is changing dramatically, even in the poorer emerging markets. For instance, the shopping mall phenomenon that originated in the United States is, for better or worse, spreading to dozens of emerging markets. Nine out of the ten largest shopping malls in the world are located in emerging markets: four in China, one in Malaysia, one in Turkey (the biggest mall in Europe), and three in the Philippines (see **Exhibit 18-3**).²²

Most of these characteristics are numbers-based (income, population, and so forth). However, we would like to add one final element that relates to a country's

²¹Deepa Chandrasekaran and Gerard J. Tellis, "Global Takeoff of New Products: Culture, Wealth, or Vanishing Differences?" *Marketing Science*, 27 (Sept.-Oct. 2008), pp. 844-60.

²²"The World's Largest Malls," www.forbes.com, accessed on March 26, 2009.

EXHIBIT 18-3
THE WORLD'S LARGEST SHOPPING MALLS

<i>Ranking</i>	<i>Name</i>	<i>Location</i>	<i>Gross Leaseable Area (in million sq. feet)</i>	<i>Year Opened</i>
1	South China Mall	Dongguan, China	7.1	2005
2	Golden Resources Shopping Mall	Beijing, China	6.6	2004
3	SM Mall of Asia	Pasay City, Philippines	4.2	2006
4	Cevahir Istanbul	Istanbul, Turkey	3.8	2005
5	West Edmonton Mall	Edmonton, Canada	3.8	1981
6	SM Megamall	Mandaluyong City, Philippines	3.6	1991
7	Berjaya Times Square	Kuala Lumpur, Malaysia	3.4	2005
8	Beijing Mall	Beijing, China	3.4	2005
9	Zhengjia Plaza	Guangzhou, China	3	2005
10	SM City North Edsa	Quezon City, Philippines	3	1985

Source: Compiled from "World's 10 Largest Shopping Malls," www.forbes.com



Courtesy: Mr. Romualdo Leones

SM Mall of Asia in Pasay City, Philippines

institutional framework: EMs are economies that are coming of age as they evolve from a system based on informal relationships to a more formal system with rules that are transparent and apply equally to all market players.²³ This involves strong economic, political, and legal institutions with rigorous regulatory controls (e.g., anti-trust, intellectual property rights), rule of law, corporate governance, and contracts that are binding and enforced.

²³ "When Are Emerging Markets No Longer 'Emerging'?" knowledge.wharton.upenn.edu, accessed on March 27, 2009.

COMPETING WITH THE NEW CHAMPIONS



Conventional wisdom tells us that as trade barriers crumble and emerging economies take off, multinationals can grab opportunities in these countries and prosper. The boons of these markets include cheap labor, rising incomes, and weak local competitors. These days, however, in many rapidly developing countries the competitive environment does not always live up to this premise. Local players have been able to keep multinationals at bay. One sign is the growing number of companies that are rooted in that part of the world showing up in the *Fortune Global 500* ranking. In the 2008 ranking, 29 companies hailed from China, 7 from India, 5 from Brazil, 5 from Mexico, and 5 from Russia.²⁴ Another telling sign is the global banking sector. In 1999, 11 of the 20 largest (in terms of market capitalization) banks in the world were U.S. based with Citigroup being the largest bank and Bank of America coming second. In 2009, barely one decade later, 5 of the largest banks hailed from China and only 3 from the United States. The top spot now belongs to ICBC, China's biggest bank; Citigroup meanwhile languishes at the bottom of the list.²⁵ Obviously, the global economic downturn played a big role here, but still.

A more recent development is that several of the so-called new champions are also wielding their clout outside their home market. In this section we first look at strategies used by local companies in emerging markets. We then examine how multinationals can bolster their competitive position against the onslaught of the new champions.

In the Philippines, many lunch crowd people longing for a burger do not head to a McDonald's or a Burger King restaurant. Instead, they buy their fast food at Jollibee's, a local chain with a cute-looking bee as a mascot (see **Exhibit 18-4**). The company,

The New Champions

EXHIBIT 18-4

JOLLIBEE—THE LEADING FAST FOOD CHAIN IN THE PHILIPPINES



Courtesy: Mr. Romualdo Leones

²⁴<http://money.cnn.com/magazines/fortune/global500/2008/>.

²⁵"The Fearsome Become the Fallen," www.ft.com, accessed on March 26, 2009.

which started as an ice cream parlor in 1975, now dominates the fast food scene in the Philippines. It has become popular by creating the image of a warm, friendly, family-bonding place. In 1986, it opened its first store overseas, in Taiwan. Today, Jollibee outlets can be found across Asia (e.g., Brunei, Hong Kong, Indonesia, Vietnam) as well as in the United States.²⁶ Jollibee is just one example of a so-called **new champion**, a company created in an emerging market that has been able to humble multinationals. Looking at China, the fastest growing EM, local champions throw their weight in dozens of industries. In the IT industry alone, some of the highfliers that are leaders in their respective fields include Baidu for online search, Taobao (owned by Alibaba) for online auctions, youku.com for online video-sharing, Shanda for online gaming, and QQzone (owned by Tencent) for social networking.

Dozens of the new champions have also become credible challengers outside their home market. Taiwan-based HTC is now one of the leading smart-phone brands. The company is also the manufacturer of the first smart phone that uses Google's Android software. Acer, another Taiwanese high-tech company, is the leading brand in Europe's personal computing market. Some of these challengers have made forays overseas by buying up global brands. Recent high-profile examples include the purchase of the Miller beer brand by South African brewer SAB and the Budweiser brand by Brazil's InBev,²⁷ the acquisition of IBM's PC division by Chinese computer maker Lenovo, and the purchase of the Jaguar and Land Rover luxury car brands by India's Tata Group. Some also have made strides in the global arena through global ad campaigns or multimillion dollar sponsorship deals: in 2004 Emirates Air, the Dubai-based airline, signed a £100 million (\$165 million) deal to name the new stadium of English soccer team Arsenal;²⁸ India's Tata Consultancy Services became a sponsor of the Formula One Ferrari team for the 2009 season.²⁹

What makes emerging-markets firms so successful? Bhattacharya and Michael identify six strategies that the new champions employ to stave off multinational companies:³⁰

1. *Create customized offerings.* Savvy local companies often have built up an intimate knowledge of their customers. By leveraging their customer information, these firms have been able to develop customized products or services that appeal to their clients. A case in point is Shenzhen-based Tencent and its QQ online messaging service. With a registered user base of 150 million, Tencent dominates China's messaging and social networking site (SNS) market. Foreign internet brands, such as MSN, Yahoo!, and MySpace, lag far behind. Apart from investing very heavily in building up the QQ-brand name, another reason for QQ's dominance is features such as digital avatars that can be personalized. These avatars allow users to personalize their online messaging presence, thereby tapping into Chinese people's desire for freedom of expression. By the same token, Jollibee localized its burgers to taste like stronger-flavored meatballs instead of pure beef patties, which Filipinos find too bland. The chain's menu also includes favorite Filipino items such as sweet spaghetti, palabok (vermicelli noodles), and arroz caldo (a chicken rice dish).³¹
2. *Develop business models to overcome obstacles.* Local champions are adept in identifying key challenges and then developing business models to surmount them. Multinational firms can always copycat them but savvy local players always sustain their edge by honing their first-mover advantage. A good example is the 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

²⁶"A Filipino Sting for McDonald's," *International Herald Tribune*, May 31, 2005, p. 10.

²⁷Strictly speaking, InBev is a Belgium/Brazil company but the CEO and key managers are Brazilian. After the Anheuser-Busch acquisition, InBev changed its name to Anheuser-Busch InBev.

²⁸<http://news.bbc.co.uk/sport2/hi/football/teams/a/arsenal/3715678.stm>

²⁹http://news.bbc.co.uk/sport2/hi/motorsport/formula_one/7788830.stm

³⁰Arindam K. Bhattacharya and David C. Michael, "How Local Companies Keep Multinationals at Bay," *Harvard Business Review*, 86 (March 2008), pp. 84–95.

³¹"A Filipino Sting for McDonald's."

EXHIBIT 18-5



INDRANIL MUKHERJEE/AFP/Getty Images, Inc.

Tata Group chairman Ratan Tata poses with a Nano car.

thriving business by developing multiplayer online role-playing games where the issue of piracy is moot. Another important obstacle is the lack of a credit card culture. Shanda overcame that stumbling block by introducing off-line payment mechanisms such as pre-paid cards.

3. *Deploy latest technologies.* Given that local players are typically still very young companies, they are not hampered by the legacy of old technologies and can leapfrog to the latest technologies instead. This enables them to keep their operating costs low and to provide good-quality products or services. Some of these companies have also become very innovative. Safaricom is Kenya's leading mobile phone service provider. The company developed a mobile banking service called M-PESA that allows clients to transfer money via SMS and handle their mobile phone as an electronic wallet. The product became so successful that Vodafone, a British mobile carrier that holds a stake in Safaricom, rolled it out to other developing countries (see **Exhibit 18-5**).
4. *Take advantage of cheap labor and train staff in-house.* Labor costs in most emerging markets are still much lower than in developed countries. Rather than relying on capital-intensive modes of business, many of the new champions have developed business models that leverage the cheap labor cost advantage in their home country. Huawei and ZTE, two leading Chinese telecom infrastructure firms, have been able to undercut the likes of Cisco and Alcatel/Lucent in international markets because of their access to a massive pool of Chinese engineers who are willing to accept salaries far lower than their Western counterparts. By the same token, BYD, the biggest Chinese manufacturer of rechargeable batteries, claims that its "human resource advantage" is the key element of its strategy.³² The company's business model relies on a huge army of migrant workers to assemble its products instead of the robotic arms used on Japanese assembly lines. BYD employs about 10,000 engineers

³²"Buffett Takes Charge," *Fortune Asia Edition* (April 27, 2009), pp. 36–42.

who come from China's best schools. The firm can afford to recruit so many of them because salaries are only \$600 to \$700 a month. Companies from emerging markets are also often much more capable in dealing with the bare minimum of resources than their rivals from the developed world, a skill that Carlos Ghosn, the head of Renault-Nissan, describes as "frugal engineering."

5. *Scale up rapidly.* Many homegrown champions distinguish themselves by building up scale very quickly. Typically, this happens through a combination of organic growth and absorbing smaller rivals. Several new champions go a step further and take their innovative business models to other emerging markets or sometimes even the Western world. A case in point is Pearl River Piano, China's leading piano manufacturer. The company grew over the last 30 years by out-investing local rivals. Currently, the company has the world's largest piano factory with a capacity of 100,000 pianos per year. In 2000, the firm bought up Rittmuller, a German piano maker, to boost its reputation and to broaden its price points.³³ The firm is now the leader at the low end of the U.S. upright piano market.
6. *Invest in talent to sustain growth.* The new challengers also grow by their willingness to invest in managerial talent. Several of their top executives left senior positions with multinationals to join them. Even though the salaries may not always match those paid by multinationals, there are other ways to attract talent: the prospect of rapid career advancement, the joy of being part of an entrepreneurial culture, shares in the company.

One challenge that the emerging-market champions face is whether they should focus on their home market or expand into the global marketplace. Li Ning, for example, is a Chinese athletic wear company named for its founder, who won three gold medals in gymnastics during the 1984 Los Angeles Olympics. The sneaker company has been very successful in China. It intends to export its shoes to Europe and the United States and compete head-on with the likes of Nike and adidas.³⁴ Deciding which strategy to pursue hinges on two parameters: the strength of globalization pressures and the degree to which a company's assets can be transferred internationally.³⁵ Combining these two parameters generates a set of four strategic options, as is illustrated in **Exhibit 18-6**. If globalization pressures are high in the industry but the company's assets are only valuable in its home market, then the best course of action is to enter into a joint venture or sell out to a multinational. This option is the *dodging* strategy. In 2008, Huiyuan Juice, China's leading pure juice brand, agreed to allow Coca-Cola to acquire it. However, the Chinese government ultimately rejected the proposed buy-out deal due to anti-trust concerns. If a company's assets are transferable, it can use its success at home as a platform for expansion in foreign markets. Under this scenario, the company can compete head-on with the large multinationals and become a *contender*. To overcome the first-mover status of established multinationals, the contender should start by benchmarking the global players to search for ways to innovate. The insights derived from the benchmarking exercise can then be used to navigate around the leading global players. This could be done by tapping into niches that have been neglected by the existing multinationals so far.³⁶ The switch to greener technologies in the car industry gives newcomers from emerging markets an opening to compete with incumbent carmakers. In particular, BYD, a Chinese battery maker, can leverage its expertise in battery design to compete in the electric car niche. By the same token, India's Tata Group aspires to launch its super-cheap fuel-efficient Tata Nano car in Europe and the United States. In Tata's case, a key transferable asset is the company's expertise in developing ultra-cheap cars. When there is little pressure to globalize and the company's assets are not transferable, the firm should focus on defending its home turf advantage. Companies finding themselves in

³³www.pearlriverusa.com

³⁴"China Tries to Solve its Brand X Blues," www.nytimes.com, accessed on March 28, 2009.

³⁵Niraj Dawar and Tony Frost, "Competing with Giants. Survival Strategies for Local Companies in Emerging Markets," *Harvard Business Review*, March–April 1999, pp. 119–29.

³⁶Christopher A. Bartlett and Sumantra Ghoshal, "Going Global. Lessons from Late Movers," *Harvard Business Review*, March–April 2000, pp. 133–42.

EXHIBIT 18-6
STRATEGIC OPTIONS FOR EMERGING-MARKET COMPANIES



Source: Reprinted with permission from Niraj Dawar and Tony Frost, "Competing with Giants. Survival Strategies for Local Companies in Emerging Markets," *Harvard Business Review*, March-April 1999, p. 122. Copyright 1999 by Harvard Business School Publishing. All rights reserved.

such a situation are *defenders*. Li Ning, the Chinese athletic wear company that we mentioned earlier, could be an example of such a company. One of the firm's assets is Mr. Li Ning, the founder and former gymnast, who personifies the brand. While Li Ning is well recognized in China,³⁷ the brand personality does not resonate with sports fans outside China. Furthermore, given the size of China's athletic apparel market, there is very little pressure for Li Ning to globalize. The fourth scenario arises when globalization pressures are weak but the company's assets are transferable. Under such circumstances, the company can generate extra revenues and scale economies by leveraging its asset in markets similar to its home market. A case in point is Lenovo, the Chinese personal computing firm. With its dominance of the PC market in China, Lenovo has learned how to effectively compete in emerging markets. Lenovo's strategy is to expand aggressively in emerging markets, including the other three BRIC countries, by transferring its China business model.³⁸

Multinationals from the developed world can fight off the challenge posed by emerging-market newcomers but it may take some innovative thinking. Usually, multinationals from developed countries defend themselves against emerging giants by focusing on the high-end segments of the market. Such a move may allow them to sustain margins but at the expense of lower volumes. Another option is to take a leaf out of the new champions' book and try to beat them at their own game by pursuing value-for-market strategies. The competitive response that IBM delivered to the onslaught on its service business provides a good illustration of this approach. A threesome of Indian outsourcing upstarts, Tata Consulting Services, Infosys, and Wipro, posed a serious threat to IBM's service business. To fight off the assault, IBM bought Daksh, a smaller rival of the trio, and built it into a large business to compete on cost and quality with its Indian rivals.³⁹ In general,

Competing Against the Newcomers

³⁷Li Ning lit the Olympic flame during the opening ceremony of the 2008 Beijing Summer Olympics.

³⁸"Lenovo Ousts CEO, Returns to Roots," www.wsj.com, accessed on March 28, 2009.

³⁹"A Special Report on Globalization," *The Economist*, September 20, 2008.

multinationals can choose from five value-for-money strategies to fend off threats from the emerging giants in their industry:⁴⁰

1. *Go beyond low-cost sourcing in emerging markets.* Western multinationals should view developing countries as more than cheap manufacturing bases. They should examine the entire value chain from R&D to customer service support and see which stages would warrant relocation to emerging markets. For example, Nokia Siemens Network, a joint venture between Nokia and Siemens, set up an innovation center in China to develop software technologies for the telecom industry.
2. *Develop products in emerging markets and bring them home.* Companies could launch in their developed markets new products that were developed by their subsidiaries in emerging markets. The reason is that these affiliates often have an intimate knowledge of value-oriented consumers and, thereby, honed their skills for this segment. Unilever views its Indian subsidiary Hindustan Lever as a major font for innovative ideas. Pureit, a cheap home water purification system that Hindustan Lever introduced in 2008, is one example of a brilliant innovation that Unilever plans to transplant to other markets.⁴¹ M-PESA is an innovative mobile payment solution developed by Safaricom, Kenya's leading mobile phone carrier. Vodafone, the British mobile communications group and a partner of Safaricom, is now taking the breakthrough service to other countries.
3. *Copy branding tactics used in emerging markets.* Emerging giants often use cost-effective tactics to build up their brand image. Western companies could learn from such promotion strategies and emulate such tactics to get more bang for their promotion buck.
4. *Team up with the new emerging giants.* Traditionally, multinationals would form a joint venture with a local firm to penetrate the host market. The local partner would help the multinational through its distribution knowledge or knowledge of local consumers. A more radical approach is to tie up with a new emerging giant and harness its capabilities in delivering value-for-money (cost innovation). This would allow the multinational to share the risks with the local partner and to grow in tandem with the partner. One example is IBM's partnership with AirTel in the Indian mobile-phone market. IBM manages much of AirTel's back-office operations and shares the financial risk with the firm. Such partnerships would not just focus on the emerging-market firm's home market but also include other emerging markets or even developed countries.
5. *Invest in growing mass markets in developing countries.* Most Western multinationals focus on the high-end segments of the market when competing in developing countries and leave the mass markets to their local competitors. However, such strategy enables local players to build up scale and experience. To pre-empt them, multinationals must broaden their scope and also go for the mass markets.

TARGETING/POSITIONING STRATEGIES IN EMERGING MARKETS—BOP OR NO BOP?

Just as with developed markets, choosing the right target markets is one of the key strategic issues multinationals grapple with in emerging markets. As income levels in most of these countries tend to be low, MNCs doing business in this part of the world have typically focused on the wealthy consumers and businesses while ignoring the rest of the population. These days, however, several MNCs realize that there could also be huge market opportunities at the so-called “bottom of the pyramid.” The **bottom of the pyramid (BOP)** is defined as the 4 billion people living on less than \$2 per day. C. K.

⁴⁰Peter J. Williamson and Ming Zeng, “Value-for-Money Strategies for Recessionary Times,” *Harvard Business Review*, 87 (March 2009), pp. 66–75.

⁴¹“Unilever CEO Looking at India for Growth Tips,” www.business-standard.com, accessed on March 29, 2009.

Prahalad, a management guru and professor at the University of Michigan, popularized the concept in his 2004 book, *Fortune at the Bottom of the Pyramid*. The BOP paradigm can be summarized as follows:⁴²

- First, there is a lot of untapped money at the BOP. The poor represent a substantial reservoir of pent-up demand.
- Second, the BOP offers a new growth opportunity for value creation and a forum for innovation.
- Third, BOP markets must become an integral part of the firms' core businesses. They will be critical for the long-term growth and vitality of MNCs.

Catering to the BOP in EMs can be very rewarding for MNCs. Some of the benefits include the following:⁴³

1. Some BOP markets are large and attractive as stand-alone entities.
2. Many local innovations can be leveraged across other BOP markets, thereby creating a global opportunity for such innovations.
3. Some innovations that originate in BOP markets can also be launched in the MNC's developed markets.
4. The learning experience from the BOP markets can also benefit the MNC. Pursuing the BOP forces an MNC to deliver value for money, which requires relentless cost discipline. Cost discipline goes beyond cost cutting techniques. To succeed in a BOP market, the MNC should pursue **cost innovation**, meaning, innovation efforts that focus on re-engineering cost structures (instead of new functions or features) so that the firm can offer the same or even much more value at a lower cost for consumers.⁴⁴

Nokia's experience in China illustrates how an MNC can thrive in a BOP market environment. Nokia views China's less-developed regions as a major driving force behind its future growth: while mobile phone subscription growth in China's big cities is slowing, the country's smaller cities and rural area still offer tremendous market opportunities. Most new users from these regions buy handsets for the first time. To tap into China's BOP, Nokia has developed a wide variety of ultra-cheap handsets that can be sold for as little as \$30. As a result, Nokia was able to outmaneuver domestic handset manufacturers and prevail in the low-end segment, while still maintaining dominance in the upper-end of China's mobile phone market.⁴⁵

One fallacy marketers often make is that value for the BOP consumers means low price. Low-income consumers have similar perceptions and needs as their richer neighbors. They are often attracted to international brands due to their perceived quality image. One market researcher in the region notes: "A low-income mother sending her child to school may see the fact that he or she has a very clean white shirt as the only way she can express love. So she will choose her soap powder brand in a much more considered way than a middle-income mother who can afford to express her love in other ways."⁴⁶

Although the case for marketing to the BOP sounds compelling, some scholars find the BOP proposition to be too good to be true. In particular, professor Karnani, incidentally a colleague of C. K. Prahalad, argues that the whole concept of marketing to the BOP is a mirage. Karnani claims that the BOP market (1) is very small and (2) is unlikely to be profitable for most MNCs as they overestimate the buying power of poor

⁴²C. K. Prahalad, *The Fortune at the Bottom of the Pyramid* Upper Saddle River, NJ: Wharton School Publishing, 2004, pp. 4–6.

⁴³*Ibid.*, Chapter 3.

⁴⁴"Value-for-Money Strategies," pp. 68–70.

⁴⁵"Nokia Sees Chance in Underdeveloped Areas," www.chinadaily.com.cn, accessed on March 30, 2009.

⁴⁶"A Fresh Look at the Low Earner," *Media*, March 9, 2007, p. 8.



GLOBAL PERSPECTIVE 18-1

HINDUSTAN LEVER—STRADDLING THE PYRAMID

In 2008, Hindustan Unilever Ltd (HUL), Unilever's subsidiary in India, celebrated its 75th anniversary. The company is the largest soap and detergent manufacturer in India. India's current socioeconomic structure looks like a pyramid: a narrow top of high-income households—the “affluent,” a broader middle layer of middle-income people—the “aspirers,” and huge bottom layer of low-income households, the “strivers.” However, HUL foresees that the shape of India's society will evolve from a pyramid to a diamond by 2013 (see Table A). Furthermore, India has a very young population.

Instead of simply selling premium brands to the top-end of the pyramid, HUL grows its business by “straddling the pyramid.” This vision involves offering premium brands to the affluent, value-for-money brands to middle-income consumers, and affordable pricing to low-income consumers. HUL recognizes that India's BOP consumers do not simply look for cheap products but quality products that are affordable.

India's Changing Income Pattern—From a Pyramid to a Diamond

<i>Socioeconomic class</i>	<i>Number of households in 2003 (in millions)</i>	<i>Number of households projected by 2013 (in millions)</i>
Rich Classes	3	11
Aspiring Classes	46	124
Strivers (BOP)	131	96
Total	181	231

Source: National Council of Agriculture & Economic Research

To straddle the pyramid, HUL's marketing strategy rests on six pillars:

Sources: Harish Manwani, “Winning in Developing & Emerging Markets,” http://www.hul.co.in/mediacentre/speeches/Hil_Agm_Speech_Booklet_2006.pdf, “Hindustan Unilever Limited,” Merrill Lynch India Conference Investor Presentation, 2nd February 2009.

1. An unmatched brand portfolio to serve the many Indias
2. Innovation and R&D capabilities
3. A track record of building large and profitable mass markets
4. A versatile distribution network that is capable of handling both traditional and modern trade
5. A good record of devising strategies that aid rural development in India
6. A strong local talent base.

For each core category, HUL has a brand portfolio that covers all three income groups. A case in point is the soap category in which the firm sells three major brands: at the bottom, Lifebuoy for the strivers; in the middle, Lux for the aspirers; and at the top, Dove for the affluent. HUL's 2008 (value) market share of the soap category was 51.6 percent, compared to 9.4 percent for the nearest competitor.

Innovation at HUL is not only new product development but also stretches to business processes, packaging, distribution channels, and delivery mechanisms. To develop the BOP market, HUL introduced the single-use, one Rupee sachet of shampoo. The firm extended this so-called low unit price concept to other categories (e.g., detergents, tea, toothpaste). To cope with India's lack of water supply, HUL scientists developed a detergent powder (Surf Excel Quick Wash) that requires much less water than regular powders. Unilever plans to launch the brand in other markets where water scarcity is a major issue.

Diarrhea is a major disease among India's poor. Almost twenty percent of India's children suffer from diarrhea. In 2002, HUL initiated a campaign to combat this disease, which illustrates how the firm combines its business strategy with economic development. Studies had shown that washing hands with soap lowers the risk of the disease by almost half. Unfortunately, there is little awareness among India's poor of basic hygiene habits such as washing hands. To spread the message of health and hygiene to India's countryside, HUL launched the Lifebuoy Swasthya Chetana initiative in 2002.

people. Instead of viewing the poor as consumers, the best antidote to poverty according to the critics of the BOP premise is to focus on them as producers. Private firms can help here by upgrading the skills and productivity of the poor and creating more job opportunities for them.⁴⁷

One fundamental difference between developed countries and the EMs is that segments are usually much coarser in the latter markets. Most categories in developed countries are highly segmented catering to a wide variety of preferences or tastes. Such

⁴⁷ Aneel Karnani, “The Mirage of Marketing to the Bottom of the Pyramid: How the Private Sector Can Help Alleviate Poverty,” *California Management Review*, 49(4), Summer 2007, pp. 90–112.

high level of product differentiation tends to be very costly for most product categories. Given the low incomes in most EMs, such finely refined level of segmentation is not effective. Also, the targeted media (e.g., niche cable channels) that enable highly refined segmentation simply do not exist in many EMs. **Global Perspective 18-1** discusses some of the strategies being used by Hindustan Lever to conquer India's BOP market.

ENTRY STRATEGIES FOR EMERGING MARKETS



Given their volatile market environment, choosing the proper entry strategy becomes a crucial task for a successful performance in EMs. As we saw in Chapter 9, setting up an entry strategy involves many different aspects. In this section we focus on two key decisions: the timing and the mode of entry.

Despite the appeal of EMs, especially the huge BRIC countries, early entry can hurt performance even for mighty brands. When the cereal industry of Western countries matured in the 1990s, it did not take long for Kellogg's to decide to enter India. A country with one billion people presents an alluring prospect for many consumer goods companies. Further, the company would have very few direct competitors. In 1994, Kellogg's ventured into India with a \$65 million investment. Unfortunately, Indian consumers found the whole concept of eating breakfast cereal odd. Although initial sales were encouraging, sales never really took off. Apparently, many people bought Corn Flakes for its novelty value but then went back to more familiar breakfast entrees. Even if they liked the taste, the product was too expensive for most households.⁴⁸ Most likely, India was not yet ready for Western-style cereals and Kellogg's entry may have been too hasty and aggressive.

Timing of Entry

There are several reasons why first movers in emerging markets can fail.⁴⁹ As the Kellogg's example shows, early entrants may not be aware of the pitfalls of newly opened emerging markets. Second, returns on investment can be low when the infrastructure is not yet fully developed. For instance, when distribution channels are dysfunctional or missing, the MNC typically needs to build up its own distribution network. Such an endeavor demands heavy investments that may be hard to recover in the short or medium term. Third, later entrants have a flatter learning curve as they can learn from the mistakes made by earlier entrants.

On the other hand, powerful arguments can also be made for early entry.⁵⁰ First, government relations are usually far more influential in EMs than in developed countries. Nurturing of these relationships could lead to favorable treatment and tangible benefits (e.g., tax holidays, licenses) that buffer the early entrant against incursions of later entrants. Second, the huge pent-up demand for previously unavailable Western brands can lead to very high initial sales. Third, early entrants can lock up access to key resources such as media access, brand endorsers, distributors or suppliers. Such resources are often much scarcer in EMs than in developed countries. Fourth, early entrants can enjoy higher productivity of their marketing dollars. In early stages of economic development, advertising rates and competitive marketing spending are relatively low. Therefore, marketing dollars can deliver much more bang-for-the-buck in the form of high awareness, share-of-mind, or brand preference compared to later stages. A final aspect is the potential for smaller players to outmaneuver their larger slower-moving rivals. EMs have less well-established brand preferences and higher growth rates than their developed counterparts. As a result, gaining a foothold in these markets can be much less difficult for the challengers than in more mature developed countries.

⁴⁸<http://brand-failures.kuntau.net/culture-failures/kelloggs-in-india.html>

⁴⁹Joseph Johnson and Gerard J. Tellis, "Drivers of Success for Market Entry into China and India," *Journal of Marketing*, 72 (May 2008), pp. 1–13.

⁵⁰David J. Arnold and John A. Quelch, "New Strategies for Emerging Markets," *Sloan Management Review*, 40 (Fall 1998), pp. 7–20.

Entry Mode An MNC that plans to enter a new EM can choose from several modes of entry (discussed in Chapter 9): exporting, licensing/franchise, joint venture, wholly-owned subsidiary. As you may remember, the key tradeoff among these choices is that between risk and control over marketing resources. Risk has both a financial (e.g., currency volatility, getting paid) and marketing (e.g., sales volume) component. In general, risk levels tend to be much higher in EMs than in developed countries. However, control can also be very critical for an MNC entering an EM. First, control protects resources from leakage, such as patent theft. Second, success in the EM often rests on strict control over scarce resources such as distribution or supply. One very important factor for the mode choice is the institutional framework in the EM. These institutions include items such as the legal framework and its enforcement, property rights protection, regulatory regimes (e.g., anti-trust). A recent study compared the entry choices of MNCs in four emerging economies: Vietnam, Egypt, South Africa, and India. The authors found that the stronger the institutional framework, the more likely the MNC would prefer an acquisition or greenfield entry mode over joint ventures.⁵¹

Given the large risks and the firm's lack of knowledge, MNCs usually first enter with a low-risk entry mode (e.g., licensing, minority JV) to minimize risks. The focus is on sales rather than marketing. There is little adaptation, as the small volumes cannot support potential adaptation costs. Over time, as sales take off, the MNC increases its commitment and shifts toward a higher-control entry mode. In case the MNC entered the market via a joint venture, it might raise its stake or even buy out the partner if the country's legal framework allows that.⁵²

When developing an entry strategy, the ultimate yardstick is the firm's performance in the host country. Clearly many factors play a role in driving the entry's success or failure. A recent study examined the drivers of success for market entry into China and India, the two biggest emerging markets. Its main conclusions were the following:⁵³

- Success is greater for entry into China than for entry into India.
- Success is greater for smaller firms than for bigger ones.
- Success is greater for entry into emerging markets with less openness and less risk and those that are economically similar to the multinational's home market.
- The greater the control of the entry mode, the larger the success.

Once the MNC has decided on an entry strategy, the firm has to develop a marketing strategy to penetrate the EM. Simply replicating strategies that served the company well in developed countries could be a recipe for disaster. In the remainder of this chapter, we discuss the different elements of the marketing mix in an EM environment.

◆◆◆◆◆◆◆◆◆◆ PRODUCT POLICY

Offering the right product mix is a major requirement to thrive in the EM. Scores of MNCs failed in this regard. In what follows, we highlight three facets of the product policy: product design, branding, and packaging.

Product Design Often, when first entering an EM, the multinational is reluctant to adapt its product offerings to the host market. Adaptation costs money and is time consuming. Given the high market risks, adaptation could be a gamble that the firm is not willing to make.⁵⁴

⁵¹Klaus Meyer, Saul Estrin, Sumon Bhaumik, and Mike W. Peng, "Institutions, Resources, and Entry Strategies in Emerging Economies," *Strategic Management Journal*, 30(1), 2009, pp. 61–80.

⁵²*The Mirage of Global Markets*, pp. 85–90.

⁵³Joseph Johnson and Gerard J. Tellis, "Drivers of Success for Market Entry into China and India," *Journal of Marketing*, 72 (May 2008), pp. 1–13.

⁵⁴David J. Arnold and John A. Quelch, "New Strategies in Emerging Markets," *MIT Sloan Management Review*, 40 (1), Fall 1998, pp. 7–20.

Instead, the MNC might sell a narrow range of existing products and position them as premium products targeted at the affluent EM customers. Another option MNCs often pursue is **backward innovation**: offer a stripped-down version of the product that is sold in developed markets. Such a basic product could then be sold at a much lower price than the original product being sold in developed markets. Panasonic's so-called "Emerging Markets Win" (EM-WIN) products exemplify this approach. These products are mostly appliances and electronics designed in Japan, but with fewer features (e.g., fewer refrigerator doors) and modified slightly for local customers. The line targeted upper-middle income consumers (the "next rich") in fast-growing developing countries.⁵⁵

Companies following such product policies believe that products that are at or near maturity in the developed markets, could act as anchors for the product policy in EMs. The underlying premise is that the market conditions that prevailed in the developed countries when these products were first introduced are similar to the ones that exist now in the EMs. A further payoff is that the product or its stripped-down version gets an extra lease to life by selling them in the EM. While this policy may have been effective in the twentieth century, it could go badly wrong in today's information age. Consumers in EM often want the latest products now instead of products that have become mature or obsolete in developed countries.⁵⁶ Rapid information flows via the internet and other channels imply that EM customers are often very familiar with the latest trends in EM markets.

Products designed for the mass market in EMs need to surmount two barriers, namely (1) low incomes and (2) poor infrastructure (e.g., unreliable power supply, poor roads).⁵⁷ Low incomes imply that products should be affordable, functional and built to last. Quality consistency is also crucial. Following China's melamine milk scandal, many Chinese mothers switched to foreign milk powder brands because of their safety image and consistent quality.⁵⁸ To cope with infrastructure shortcomings, the product must be sturdy and long lasting. Products may also need to be designed to handle a dysfunctional infrastructure. Whirlpool redesigned its washers for India so that they could restart from the point in the washing cycle where they had left off when the power or water supply was interrupted.⁵⁹ Surf Excel is a HUL⁶⁰ laundry detergent that is mostly used for washing clothes by hand. Water is scarce resource in India, especially in the dry southern states. HUL improved the detergent formulation so that the water used for washing could be reduced.⁶¹ Also in India, HUL developed Pureit, an in-home water purifier that removes harmful germs from water. At Rps. 2000 (approx. \$45), Pureit costs much less than most other water purifiers in India. The water purifier does neither require continuous electricity supply (it uses a battery instead), nor pressurized tap water.⁶² **Global Perspective 18-2** discusses Nokia's product strategy for EMs.

Local brands have often humbled global brands in EMs. Assuming that consumers in EMs, even the affluent ones, will pay a premium for global brands can be a fatal mistake. One McKinsey study prescribes a two-pronged branding strategy for MNCs doing business in EMs. For the wealthy segment, the MNC can pursue sophisticated, brand-building strategies. Especially among youth segments, the global brand can offer a passport to global citizenship and thereby foster a global identity.⁶³ However, to capture the BOP market, MNCs should try to emulate their local competitors. This may

Branding

⁵⁵"Panasonic Eyes Emerging Market," *The Wall Street Journal Asia*, July 10-12, 2009, p. 4.

⁵⁶"New Strategies in Emerging Markets," p. 16.

⁵⁷Niraj Dawar and Amitava Chattopadhyay, "Rethinking Marketing Programs for Emerging Markets," *Long Range Planning*, 35 (2002), pp. 457-74.

⁵⁸<http://news.bbc.co.uk/2/hi/asia-pacific/7620812.stm>.

⁵⁹Ibid.

⁶⁰HUL (Hindustan Unilever Limited) is Unilever's India subsidiary.

⁶¹<http://www.unilever.com/innovation/productinnovations/indiasavingwaterwithsurfexcel.aspx>

⁶²http://www.pureitwater.com/about/affordable_price.asp

⁶³Yuliya Strizhakova, Robin A. Coulter, and Linda L. Price, "Branded Products as a Passport to Global Citizenship: Perspectives from Developed and Developing Countries," *Journal of International Marketing*, 16 (4), 2008, pp. 57-85.



GLOBAL PERSPECTIVE 18-2

NOKIA'S PRODUCT LINEUP FOR EMERGING MARKETS

With penetration rates in most developed regions close to 90 percent or even higher, handset makers increasingly focus on emerging markets. Nokia, the world's leading mobile phone company, has long recognized the potential of this part of the world. The firm is already the market leader in China and India, the two biggest prizes.

To make handsets practical for people living in EMs, Nokia traveled to the far corners of the globe. The company designed rugged, low-cost handsets with features such as dustproof cases (crucial in dry areas) and flashlights (useful in places with power outages). Through conversations with slum dweller in places such as Nairobi, Nokia learnt that many people often share handsets. It designed phones that allow owners to set limits on how much time users can talk or how much money they can spend. The phones also permit multiple contact lists.

Sources: "First Mover in Mobile," www.businessweek.com, accessed on March 30, 2009; "Nokia Brings the Web to Emerging Markets," www.businessweek.com, accessed on April 1, 2009; "Nokia Unveils 4 New Phones for Emerging Markets," www.reuters.com, accessed on April 1, 2009; and http://www.nokia.com/NOKIA_COM_1/Microsites/Entry_Event/phones/Nokia_Life_Tools_datasheet.pdf.

In Spring 2008, Nokia unveiled a whole range of new phone models for EM consumers. One new phone is the Nokia 5000, a low-end entry-level multimedia phone which sells for around 90 euros (around \$120). Another new model is the Nokia 1680 Classic camera phone which retails for 50 euros (around \$65). On November 4, 2008, Nokia announced a series of new devices and services that would facilitate web access in EMs. The new devices allow users to set up an e-mail account on Nokia's Ovi web portal without ever going near a PC. The new phone models are a boon for the numerous mobile-phone users who live in areas without reliable electricity or internet connections. Nokia also aspires to improve the lives of rural mobile phone users through a new information service, Nokia Life Tools. This service would offer information on a range of topics such as market prices, weather, prices of pesticides and fertilizers, tips on new agricultural techniques. It would also provide educational services (e.g., learning English, exam results) and entertainment (e.g., cricket scores, astrology, music). A basic subscription costs about \$1.20 a month. Nokia planned to roll out this new service first in India and then elsewhere in Asia and Africa.

involve acquiring a local brand. Focus should be on keeping the best local managers, cost reduction, operational efficiencies, and simplicity rather than product reformulations.⁶⁴ One recent study that compared the performance of foreign and local brands in China found that the most critical element were the brands' local advantages such as access to local resources and government support.⁶⁵

Unilever's branding strategy in India is a good illustration of some of the tactics discussed above. The company dominates India's shampoo market with a 46.3 percent market share in 2008. HUL sells global brands (e.g., Dove, SunSilk) in the category. Indian women often oil their hair before washing it, so Western shampoos that do not remove oil have not done well in India. Unilever reformulated its shampoos for India and dropped the conditioner.⁶⁶ Unilever also dominates the laundry detergent category with a 38.1 percent market share. The company's global Surf brand targets the upper crust of India's society. In response to a low-cost competitor, it launched an inexpensive brand called Wheel. The product is less refined than the premium brands but it costs much less. Wheel rapidly gained market share, matching the key competitor's share.⁶⁷

Packaging

MNCs operating in EMs should pay close attention to packaging. The presence of cash-strapped consumers means that global players often must offer smaller package sizes in order to make their products affordable for the mass-market. For example, Colgate MaxFresh toothpaste is typically sold in 40-gram, 80-gram, and 150-gram tubes in India

⁶⁴Gilberto Duarte de Abreu Filho, Nicola Calicchio, and Fernando Lunardini, "Brand Building in Emerging Markets," www.mckinseyquarterly.com, accessed on March 29, 2009.

⁶⁵Gerald Yong Gao, Yigan Pan, David K. Tse, and Chi Kin Yim, "Market Share Performance of Foreign and Domestic Brands in China," *Journal of International Marketing*, 14 (2), 2006, pp. 32–51.

⁶⁶"The Legacy that Got Left on the Shelf," *The Economist*, February 2, 2008, pp. 66–68.

⁶⁷"Brand Building in Emerging Markets."

while it is sold in 6-oz. (170 gram) and 8-oz. (227 gram) tubes in the United States.⁶⁸ To address the needs of different segments, MNCs typically offer a variety of pack sizes at different price points. The smaller unit sizes cater toward the single-purchase buyers. The larger sizes target the bulk purchasers. Often though, local merchants buy the family-pack size and resell it in loose form (e.g., single cigarettes from open boxes).

Because of their freshness and safety (e.g., sealed packaging), brands sold by MNCs are often favored by local consumers. The pharmaceutical company Pfizer, for instance, 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's prices in Venezuela, though far below U.S. prices, are still 40% to 50% more than generics.⁶⁹ Poor local infrastructure forces firms to re-engineer the packaging to ensure the safety and freshness of their products. The packaging must be sturdy enough to allow shipping in sub-optimal conditions to areas that are not always accessible via motorized transport. Storage facilities that are standard in developed countries such as refrigeration do not always exist.

Finally, MNCs should strive for sustainability regarding packaging. In many EMs, packaging materials are scarce and costly. Furthermore, waste treatment facilities are often inadequate. Therefore, packaging should ideally rely on local materials and be recyclable or biodegradable.⁷⁰

PRICING STRATEGY



Not surprisingly, given the low per-capita income levels in most EMs, setting the right price is an important element of the marketing strategy. In general, strategies that rely on thin margins and big volumes tend to succeed. Large volumes can make even small-ticket items that retail at one cent (e.g., gum) hugely profitable.⁷¹ To capture sustainable sales volume, an MNC should try to saturate all price points instead of simply focusing on the upper-end of the market. If it fails to do so, local competitors who cater to the mass market could achieve economies of scale and use their favorable cost position to attack the MNC in the higher-priced segment at some point in the future. In India, Unilever dominates most of the product categories in which it competes. In all of these categories, Unilever markets at least one brand in each price tier (see **Exhibit 18-7**). Likewise, Nokia rolls out handsets at different price points in EMs: ranging from cheap entry-level phones for low-income, first-time buyers to premium priced full-feature sets for well-heeled replacement buyers. It makes profits at all ends of the market.⁷²

To sustain profit margins, MNCs should focus on cost innovation (“frugal engineering”) to improve the product’s cost structure instead of continuous product innovation. By lowering fixed and variable costs, the firm can make its products affordable while still enjoying a healthy profit margin. At the same time, marketers should keep in mind that EM consumers are not always obsessed with price. Unilever’s experience with Omo in Vietnam is a telling example.⁷³ In 1995, Unilever launched the laundry detergent brand Omo in Vietnam. During its first 8 years, Omo was preoccupied with a bitter price war against P&G’s Tide. When its market share started to slip in 2002, Unilever decided to shift its strategy for Omo from price-led to brand-led. The firm tried to create an emotional bond by weaving heritage, family, and compassion into the core of Omo’s brand proposition. For instance, during the 2004 Tet New Year, it ran a commercial around the local superstition that touching the clothes of loved ones would

⁶⁸Sameer Mathur, “Package Sizing and Pricing in an Emerging Market,” Carnegie Mellon University working paper, 2008.

⁶⁹“Drug Firms See Poorer Nations as Cure for Sales Problems,” *The Wall Street Journal Asia*, July 8, 2009, pp. 14–15.

⁷⁰Kelly L. Weidner, Jose Antonio Rosa, and Madhubalan Viswanathan, “Marketing to Subsistence Consumers: Contemporary Methodologies and Initiatives,” University of Illinois at Chicago working paper, 2008.

⁷¹“Rethinking Marketing Programs for Emerging Markets,” p. 465.

⁷²“Nokia’s Big Plans for India,” www.businessweek.com, accessed on March 29, 2009.

⁷³“Brands at the Starting Gate,” *Media*, February 23, 2007, pp. 20–21.

EXHIBIT 18-7
HINDUSTAN UNILEVER'S BRAND PORTFOLIO



Source: Hindustan Unilever Limited

send a message to call them back home. By 2005, Omo had become the number one recalled brand and seized category leadership in Vietnam.

In rural areas, people often practice **demand pooling**: they join their resources together to buy a particular product or service. For instance, Nokia learned that Nairobi slum dwellers organize buying clubs where the members pool their money to buy handsets one at a time until every member has one.⁷⁴ Demand pooling can also occur among groups of small businesses or entrepreneurs.

◆ ◆ ◆ ◆ ◆ ◆ ◆ ◆ ◆ ◆ THE DISTRIBUTION CHALLENGE

Distribution is typically one of the biggest challenges for MNCs doing business in EMs. The lack of a suitable distribution infrastructure coupled with the sheer land size of many EMs has deterred several MNCs from early entry. Distribution in many EMs also varies enormously between urban and rural areas. In urban areas, even the small retailers carry a wide assortment of brands in spite of limited shelf space. At the same time, modern distribution formats (e.g., shopping malls, hyper/supermarkets, discount stores) are on the rise. The needs of the modern trade differ greatly from those of the traditional trade. MNCs need to develop skills in supply chain management, in-store merchandising, and key account management to cater to the needs of the modern trade. Doing this without rupturing the ties with the traditional retailers poses a big challenge.⁷⁵ Rural retailers often carry only a single brand for each category. Therefore, being first on the shelf and building a close relationship with these retailers can create a competitive edge.⁷⁶

Compared to developed countries, distribution also tends to be much more labor intensive in EMs, especially in rural areas. In most cases, local regulations or lack of local market knowledge force the MNC to partner with a local distributor. Middlemen in EMs often fulfill roles which elsewhere are fulfilled by the country subsidiary such as choosing target segments, setting the pricing policy, or promoting the brand.⁷⁷

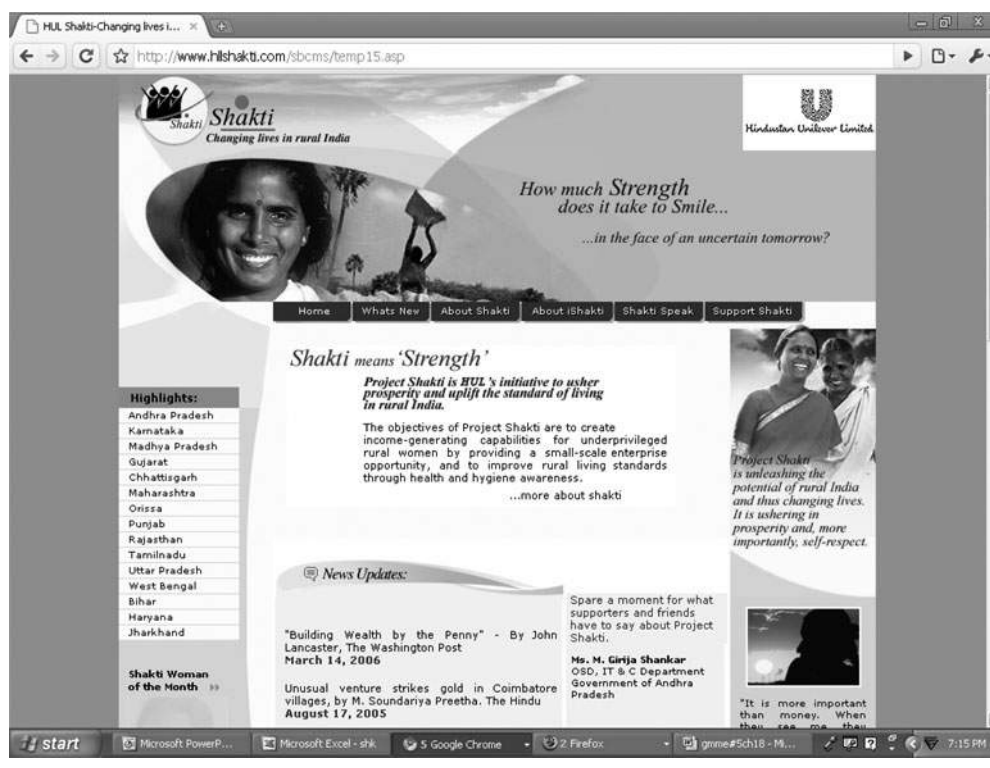
⁷⁴“First Mover in Mobile,” www.businessweek.com, accessed on March 30, 2009.

⁷⁵Harish Manwani, “Winning in Developing and Emerging Markets,” Speech at Hindustan Unilever Limited Annual General Meeting, May 29, 2006.

⁷⁶“Rethinking Marketing Programs for Emerging Markets,” p. 469.

⁷⁷“New Strategies in Emerging Markets,” pp. 17–18.

EXHIBIT 18-8 PROJECT SHAKTI



Source: www.hllshakti.com

If a suitable distribution infrastructure is lacking, one solution is to establish a distribution system from scratch. In many of the former communist East Bloc countries, government-controlled distribution collapsed after the fall of the Berlin Wall. In Russia and Poland, P&G decided to build its own distribution operations, known within the company as the *McVan model*. In both countries, the company identified a number of promising distributors and provided them with vans, working capital, and extensive training. Each distributor was granted territorial exclusivity. In exchange, the distributors made a commitment to distribute only P&G products. In Russia, this distribution system gave P&G coverage of some 80 percent of the population at a time when most MNCs were still restricted to the two main cities of Moscow and St. Petersburg. As a result, P&G gained leadership in many categories.⁷⁸ Unilever's approach to distributing its products in rural India is another good example. The company's challenge was how to reach 500,000 villages in the remote areas of India. Unilever's solution, called *Project Shakti*,⁷⁹ was to tap into the growing number of women's self-help groups, of which about one million now exist across India (see **Exhibit 18-8**). Unilever rolled out the project in 2001. Company representatives give presentations at self-help group meetings and invite their members to become direct-to-consumer sales distributors selling Unilever products. Unilever provides participants support with training in selling, commercial knowledge, and bookkeeping. Those who complete the training program can then choose to become *Project Shakti* entrepreneurs. Each distributor invests 10,000 to 15,000 rupees (\$220–330) in stock at the outset—usually borrowed from the self-help group or micro-finance banks—and aims to get around 500 customers. Most of them generate 10,000 to 12,000 rupees sales revenues a month, which translates into a monthly profit of 700 to 1,000

Creating Distribution Systems

⁷⁸David Arnold, "Procter & Gamble: Always Russia," Harvard Business School Case Study, No. 9-599-050, 1998.

⁷⁹Shakti means strength in Sanskrit.

rupees (\$15–22).⁸⁰ As of early 2009, the project had over 45,000 distributors covering over 135,000 villages across 15 states. Unilever plans to expand the Shakti distribution model to other EM countries, including Sri Lanka, Vietnam, and Bangladesh.⁸¹ Establishing an innovative distribution system such as P&G's *McVan model* or Unilever's *Project Shakti* in EM countries can generate an unassailable competitive advantage.

Managing Distributor Relationships

Even when the MNC can locate distribution partners, managing the relationship is a critical task. A breakdown of the MNC/distributor partnership can often turn disastrous. Professors Arnold and Quelch identified four areas of distribution policy in which MNCs should adapt the approaches used in developed markets:⁸²

1. *Distributor partner selection criteria.* In developed markets, product-market knowledge is often one of the main criteria for choosing a distributor. However, for EMs, competence in working with MNCs tends to be more promising as a selection criterion. The industry experience criterion may exclude more entrepreneurial candidates.
2. *Direct selling.* Faced with the absence of a suitable distribution infrastructure, scores of MNCs have adopted a direct selling business model in EMs. The relative low-cost of labor makes such a format viable. For business-to-business (B2B) selling, EMs can also rely on the internet as a channel. Indeed, China-based Alibaba is now the world's largest online global trading platform with 38.1 million registered users (see **Exhibit 18-9**). The bulk of the site's customers are Chinese companies seeking buyers

EXHIBIT 18-9

ALIBABA – THE WORLD'S LARGEST ONLINE GLOBAL TRADING PLATFORM

The screenshot displays the Alibaba.com website interface. At the top, there is a navigation bar with the Alibaba logo and the tagline "Global trade starts here." Below this, there are tabs for "Products", "Selling Leads", "Suppliers", and "Buyers". A search bar is prominently featured, with a "Search" button and a "More search options" link. Below the search bar, there are sections for "Browse by Category" on the left, listing various product categories like Apparel, Automobiles & Motorcycles, and Business Services. The main content area is divided into several sections: "Hot News" with a headline about economic downturn, "Global Trade Made Easy!" with a "Click here to begin" link, "Trade with the World" with tabs for "China", "India", and "All Regions", and "Eco-Friendly Products" featuring items like Solar Products, Energy Saving Light, Furniture, Paper Packaging, and Electric Vehicles. There are also sections for "Buying Leads" and "Products" with specific listings like "financial services", "electrical wire producti...", "Sony Vaio laptop", "D 2 Gas Oil", "Idpe film", "Skyrunner (TK-S050)", "cotton fabrics", "CoolTouch II 1320 NM NDY...", "used laptop p4", and "5spoke wheels, 3spoke wh...". A "SuperDeals" section is also visible, offering "US\$1 Products" and "Free Samples". On the right side, there are promotional boxes for "Join Free!", "Get a FREE Company Website!", "Display Your Products", "Post Your Purchase Requests", "Gold Supplier", and "Trade with the Big Buyers". The bottom of the page shows a taskbar with various applications open, including Microsoft PowerP..., Microsoft Excel-shk, Google Chrome, and Firefox, along with the system clock showing 7:17 PM.

Source: www.alibaba.com

⁸⁰<http://www.hllshakti.com>, accessed on April 2, 2009.

⁸¹"Rustic Wisdom: Unilever to Take Project Shakti Global," *economictimes.indiatimes.com*, accessed on April 6, 2009.

⁸²"New Strategies in Emerging Markets," pp. 18–19.

overseas. Still, the internet firm plans to become the online trading house of choice for small and medium sized enterprises around the world.⁸³

3. *Local autonomy.* MNCs are usually very unfamiliar with the EM's local market environment. As a result, they delegate control over many marketing tasks (e.g., pricing, promotion) to their local distributor. However, the local distributor typically focuses on short-term sales revenues instead of long-term objectives such as building up the business. To safeguard the firm's interest in the development of the business, it is better off to retain some control over some of the most critical marketing decisions.
4. *Exclusivity.* Local distributors often insist on territorial exclusivity. However, for rapid market development, having multiple distributors is often much more preferable.

COMMUNICATION STRATEGIES FOR EMERGING MARKETS



Communication strategies are an important driver behind the performance of a brand in EMs. For categories that are novel to the local consumers, marketing activities must accomplish several tasks: educating the consumers about the product use and benefits, raising brand awareness, and creating a brand image. A challenge for MNCs in EMs is to prioritize these tasks. Another communication-related issue for EMs is who to target—current existing users of the product or non-users. Most MNCs concentrate on increasing demand from current users, as this is much easier to do. Still, the payoffs from converting non-users into users can be huge.⁸⁴

A recurring resource allocation dilemma that marketers face in EMs is the pull-versus-push issue: should the company focus on consumer-oriented promotions (e.g., media advertising) or trade-directed promotions instead? Getting this balance right can be a make-or-break decision for the product's success. In most EMs, the emphasis must often be on trade-directed push-type promotions. There are several reasons. First, in many of these countries, the trade has immense power, especially in rural areas. Consumers interface directly with the retailers and often rely on their brand recommendations. Second, people shop much more frequently than in the West, often on a daily basis. As a result, the opportunities to switch brands arise much more often. Therefore, in-store promotions (e.g., point-of-purchase displays, video-demonstrations) have a heavy influence on their buying decisions.

For consumer-oriented pull promotion activities, mass media like TV and radio are often ineffective, especially in a country like India with its very diverse consumer groups. Instead, targeted media are much more useful. Billboards can be used to straddle India's pyramid: they can reach the poor who do not have TVs and do not read newspapers as well as the rich who are bored being stuck in city traffic.⁸⁵ Consumers in EM countries can also process advertisements very differently from those in the West. In China, for instance, ads tend to be read literally; people want credible evidence before they believe claims made in the ads.⁸⁶ **Exhibit 18-10** provides some insights on how to communicate with consumers in rural India.

In general, mass media in EMs have much less clout than in the developed world. One hurdle for mass media promotions is that the local infrastructure is often a shambles. Basic data on matters such as magazine circulation or TV viewership is often missing or highly inaccurate. Also, in rural areas, coverage by the mass media is often very poor. For instance,

Push versus Pull Activities

Mass Media versus Non- Traditional Marketing Approaches

⁸³“Alibaba Prepares for Global Expansion,” *www.ft.com*, accessed on April 6, 2009.

⁸⁴“Rethinking Marketing Programs for Emerging Markets,” p. 466.

⁸⁵“In India, Billboard Ads Scale New Heights,” *The Wall Street Journal Asia*, April 26, 2007, p. 30.

⁸⁶“One Country, Different Systems,” *Media*, March 9, 2007, p. 5.

EXHIBIT 18-10**GUIDELINES ON REACHING RURAL INDIA**

1. Rural India is not a consolidated entity. It is impossible to reach everybody. Due to vast cultural and language differences, common programs, even within the same state, are often not doable.
2. Mass media (e.g., TV, press, radio) are not effective as rural communities are mostly oral societies with low literacy rates. Stalls or vans parked in rural areas are much more valuable tools. They provide both brand building and sampling opportunities.
3. Opinion leaders (e.g., retailers, school teachers, *panchayats*—village heads) represent an important rural marketing channel. Such channels can be powerful brand ambassadors; consumers often trust their recommendations.
4. A key step is to identify prominent social occasions and use them to build brands. Examples include market days (*haats*), festivals. Setting up a stall costs very little; the average turnout for a *haat* could be 5,000 people.
5. Some successful rural programs rely on local youths who sell brands in 10 to 15 villages on bicycles. Examples of brands that deployed such programs include Colgate, Heinz, and Eveready. The seller gets a small monthly stipend of around \$35.
6. Product trial at a minimal charge can be very effective.

Sources: "Reaching Rural India," *Media*, May 4, 2007, p. 13; and "Countryside Competition," *Media*, June 29, 2007, p. 25.

500 million Indians lack TV and radio.⁸⁷ Other factors that hamper the effectiveness of mass media in countries such as India are illiteracy and language diversity. In the urban areas, on the other hand, consumers are bombarded with TV ads for many competing brands. Given that the tastes of EM consumers tend to be very fickle, attracting and keeping them through mass media advertising tools like TV or radio often turns out to be very difficult.

Given these limitations, non-traditional communication approaches can be much more rewarding. Also, with labor being relatively cheap, people-intensive communication modes can deliver more bang-for-the-buck. They also enable the marketer to spend more time on educating the customer and to customize the message. Just as with distribution, savvy marketers such as Nokia, P&G, and Unilever have set up their own non-traditional communication systems. Nokia, for example, deploys a fleet of vans painted in the brand's signature blue across rural India as advertisements on wheels. Nokia staff park the vans in villages and then explain the basics of how mobile phones work and how to buy them.⁸⁸ **Global Perspective 18-3** discusses some of the aspects of the marketing strategy that made Nigeria the second-largest market for Guinness beer.



GLOBAL PERSPECTIVE 18-3

NIGERIA OVERTAKES IRELAND TO BECOME THE SECOND-LARGEST MARKET FOR GUINNESS BEER

In 2007, Nigeria had the distinction of overtaking Ireland as the second-largest market for Guinness, the Irish beer brand owned by Diageo (Britain is the stout's biggest market).

Sources: "My Goodness: Nigeria Overtakes Ireland in Guinness Sales," www.guardian.co.uk, accessed on April 4, 2009; [http://en.wikipedia.org/wiki/Michael_Power_\(Guinness_character\)](http://en.wikipedia.org/wiki/Michael_Power_(Guinness_character)); and "The Power of a Campaign with a Local Flavour," *Financial Times*, February 12, 2004, p. 9.

Guinness Nigeria's success stems from several factors: development of products customized to the local market, aggressive marketing, brand heritage, and lack of strong competition. The brand thrives in Nigeria despite numerous challenges such as the logistical problems of operating in Africa, political instability, the rise of born-again Christianity, and strict enforcement of Islamic laws in Nigeria's Muslim regions.

(continued)

⁸⁷Hindustan Unilever Limited, Merrill Lynch India Conference Investor Presentation, February 2, 2009.

⁸⁸"First Mover in Mobile," www.businessweek.com, accessed on April 6, 2009.

European colonizers introduced the brand more than 200 years ago in west and central Africa. While Guinness Nigeria uses the brand's familiar harp logo, the product formulation is customized to local tastes. The main ingredient for the Nigerian brew is sorghum, a common African cereal. As a result, the Nigerian stout has a sweeter flavor. In fact, a significant share of sales comes from exports to the Nigerian diaspora in Britain. The brewer also launched Malta Guinness, a non-alcoholic beer that targets the light-beer drinking segment of the population.

Guinness Nigeria owes part of its success to the brilliant "Michael Power" campaign. The campaign centered on a fictional James Bond-like action figure. Guinness ran the campaign in Africa from 1999 to 2006. Instead of having

Michael Power make a standard sales pitch, the ad agency created a series of Michael Power short films used as vehicles for Guinness product placement. As the films were free, they were very popular with many African TV stations. In 2003, Guinness took the Power campaign to a higher level with the action movie *Critical Assignment* in which the hero fights a corrupt African politician. However, given the lack of cinemas in Nigeria, the company had to spend heavily on its own screenings. It dropped the campaign in 2006 to comply with the parent company's worldwide code on marketing. The code involves cutting back on words with a potential sexual connotation, including "power." Instead, Guinness ran a new TV ad campaign that promotes the brand as "the home of greatness."

SUMMARY

Scores of MNCs are salivating over the prospect of selling their goods to the billion-plus consumers located in emerging markets. Yet, emerging markets are very distinctive from developed countries. Business models that were honed in industrialized countries can fail miserably in this part of the world. The challenges faced in EMs are manifold: low incomes, lack of adequate distribution and media systems, cultural diversity, to mention just a few. The market opportunities clearly do exist but assailing these markets is not for the faint-hearted. In this chapter we covered the key characteristics of such markets. We then discussed a recent phenomenon—the rise of the so-called new champions—companies rooted in EMs that have

outperformed large MNCs in their home turf. Increasingly, several of these challengers pose a threat to incumbent MNCs in the global arena.

To thrive in EMs, MNCs need to rethink their basic business models. Just focusing on the upper crust of the market while leaving the mass market to local firms can prove a fatal blunder. Instead, successful companies have been able to tap into the so-called bottom-of-the-pyramid market. Finally, we examined how the distinctive characteristics of the EM's market environment force MNCs to create new strategic marketing approaches.

KEY TERMS

Backward innovation
BRICs

Cost innovation
Demand pooling

Emerging market
New champions

Next Eleven (N-11)
Transition Economies

REVIEW QUESTIONS

1. What are the characteristics of emerging markets? What is the meaning of BRIC and N-11? What is so special about the groups of countries falling under these two rubrics? How do the BRIC countries differ from the N-11 ones?
2. What are the key characteristics of emerging markets?
3. Explain what is meant by "backward innovation." What are its pluses and minuses?
4. How do you explain the rise of the new champions? How can MNCs compete against them?
5. Explain the bottom-of-the-pyramid paradigm. From the multinational's perspective, the BOP a golden opportunity or is it simply a mirage?
6. What are the challenges posed by EMs in the area of distribution/communications? What are some of the solutions?

DISCUSSION QUESTIONS

1. What do you think will be the impact of the global economic downturn on the developing world's emerging champions? Will it strengthen or weaken them? Explain.
2. The chapter discussed the rise of the so-called emerging giants. Several Chinese companies are trying to expand overseas by acquiring foreign brands. The most visible example of this phenomenon was Lenovo's purchase of IBM's PC division. Geely, a leading Chinese carmaker, is reportedly interested in buying the Volvo brand from Ford. Not all of these acquisitions have been successful. One analyst made the

following comment on this trend: “Acquisitions are no substitute for great marketing, and they actually demand more branding effort.” (*Media*, March 26, 2009). Do you agree with his assessment? What are the drivers behind the acquisition spree? What are some of the possible risks?

3. Tata recently launched the Nano in India, the company’s home market. The Nano is the world’s cheapest cars. Tata has ambitious plans, including introducing the car in Europe and

the United States. Is Tata daydreaming or do you feel there is a viable market opportunity for the Nano in Western countries. If they go ahead, how should they position the Nano? What target markets? What marketing mix strategy (to address this question, do some online research about the Nano).

4. Many companies assume that emerging markets are technology backwaters. Do you agree or this just a myth? Explain.

SHORT CASES

ASE 18-1

BARBIE GOES TO CHINA



In March 2009, Barbie celebrated its 50th birthday. In spite of her youthful appearance, sales of the iconic doll were down 21 percent. However, Mattel hopes that Barbie will make a splash in China. The company recently opened its first-ever Barbie 40,000 square-foot flagship store in Shanghai. The store opening was a gala event starring movie actors Jet Li and Christy Chung. The store includes a Design Center where children can create their own dolls, a spa, a fashion runway, a café, and, of course, many dolls.

Mattel is betting big on China: most families have just one child. Mattel's target is the so-called "little Emperor (Empress?)" generation. There are some competitors (e.g., Hello Kitty, Snoopy) but no big brands. Also, the focus in China is not just children but also includes young adults and adult women. Mattel sells Barbie-branded apparel and accessories

Sources: "Barbie's off to China amid falling sales," http://marketplace.publicradio.org/display/web/2009/03/06/pm_barbie_china/#; and "Barbie Seeks Local Appeal Through Shanghai Makeover," *Media*, March 26, 2009, p. 18.

for women. Cute is big in China: many young people have a whole range of cartoon characters and stuffed animals in their office or car.

Laura Lai, general manager at Barbie (Shanghai) Commercial, explains the strategy as follows: "Barbie is a relatively new brand to the market so we needed a way to condense almost five decades of brand history into a single experience. As China as a whole isn't a television advertising-reliant market for children's brands, we needed an innovative approach to reaching girls and their parents that could create an almost immediate relationship for the brand with consumers." (*Media*, March 26, 2009).

DISCUSSION QUESTIONS

1. Mattel is expanding the Barbie brand beyond young girls to parents and young adults in China, a tactic it has never used in other markets. What is its motivation? Is it a smart move in your judgment? What are some possible risks?
2. Could the approach Mattel is taking for Barbie work for other brands in China as well? If so, what kind of brands?



Courtesy Kristiaan Helsen



ASE 18-2

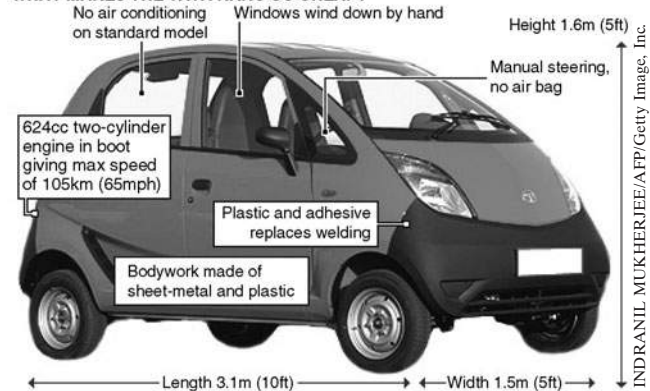
TATA NANO—THE MODEL T FOR THE TWENTY-FIRST CENTURY?

In March 2009, six years after the concept was hatched, India's much-hyped super-cheap Tata Nano went on sale. With 7 million motorbikes sold in 2008 in India, Tata has big hopes for the Nano. Initially, the launch date would have been in the fourth quarter of 2008 but violent protests from farmer groups over land compensation for the factory site in West Bengal derailed Tata's plans. In the end, Tata decided to relocate the production to a plant in Pantnagar and build a dedicated plant in the western state of Gujarat. The Gujarat factory will have an annual capacity of 250,000 cars, but its opening is slated for 2010. In the mean time, Tata can only build 50,000 Nanos a year. The revised schedule meant that the car was to be shipped from July 2009 in phases to 100,000 customers chosen via a lottery.

The mission to develop the world's cheapest car began back in 2003. At the time, Ratan Tata, the chairman of India's Tata Group, gave his engineering team three requirements: (1) the car should be low-cost, (2) adhere to regulatory requirements, and (3) achieve performance targets such as fuel efficiency and acceleration capacity. Five years later, on January 10, 2008 Mr. Tata unveiled the Tata Nano at the 2008 Auto Expo in New Delhi. The Tata Nano has been nicknamed the Model T for the 21st century. During the ceremony, Mr. Tata commented: "I observed families riding on two-wheelers—the father driving the scooter, his young kid standing in front of him, his wife seated behind him holding a little baby. It led me to wonder whether one could conceive of a safe, affordable, all-weather form of transportation for such a family. Tata Motors' engineers and designers gave their all for about four years to realise this goal. Today, we indeed have a People's Car, which is affordable and yet built to meet safety requirements and emission norms . . . We are happy to present the People's Car to India and we hope it brings the joy, pride and utility of owning a car to many families who need personal mobility." (www.tatamotors.com). Tata expects that the Nano will improve Indians' life: "People want to change their quality of life, and through the roads, will go from one place to another. It will be explosive growth, and Nano will be an answer. Nano is not an urban product, it is a product for the country." (USA Today)

The four-seater Nano is 3 meters (a little over 10 feet) long and 1.5 meters wide (about 5 feet). It can reach a speed of 65 miles per

WHAT MAKES THE TATA NANO SO CHEAP?



Source: news.bbc.co.uk

hour and has a fuel efficiency of 5 liters per 100 kilometers (9 or 47 miles per gallon). The base model is priced at 100,000 rupees (around \$2,500), the same price as a DVD player in a Lexus. The basic model has no airbags, air conditioning, radio, or power steering. However, more luxurious versions are available.

Not everyone is pleased with the Nano. Green campaigners in India point to India's poor road infrastructure and rising pollution levels. One local pollution specialist pointed out that: "Even if they claim it will be fuel efficient, the sheer numbers will undermine this. India's infrastructure doesn't have the capacity." (www.timesonline.co.uk) India's capital Delhi already registers 1,000 new vehicles per day. The average speed at peak times has dropped to 7 miles per hour. Mr. Tata, however, dismissed environmentalists' concerns: "We need to think of our masses. Should they be denied the right to an individual form of transport?" (www.timesonline.co.uk).

Despite its limitations, the Nano's fans outweigh its critics so far. It already has a dedicated Facebook group. Mr. Goyal, a 35-year old accountant, had been planning to buy the Nano since it debuted at the Delhi car show. By paying 50,000 rupees more, he can switch from a motorbike to a four-wheeler. The Nano will allow him to take along his wife and two children and would be more comfortable and safer than a motorbike. Hormazd Sorajbee, the editor of Autocar India, predicts, "The success of [the Nano] will change the rules of carmaking in the world." (*New York Times*, March 23, 2009). Because of the economic downturn, some expect that the Nano will appeal beyond the first-time market as consumers may trade down.

Tata Motors plans to introduce the car in other emerging markets in Latin America, Southeast Asia, and Africa. The company also plans to launch a plusher, more expensive Nano in Europe in 2011. The Nano Europe will meet stricter European safety and emission standards. The carmaker even ponders to

Sources: http://www.tatamotors.com/our_world/press_releases.php?ID=340&action=Pull; "Inside the Tata Nano Factory," www.businessweek.com, accessed on February 19, 2009; "Tata Nano—World's Cheapest New Car Is Unveiled In India," www.timesonline.co.uk, accessed on February 19, 2009; "Maybe Tata, Jaguar/Land Rover is not such an odd couple," www.usatoday.com, accessed on February, 19, 2009; "2,000 Dollar Question: Can the Nano Deliver?" www.nytimes.com, accessed on April 27, 2009; "The New People's Car," *The Economist*, March 28, 2009, pp. 59–60; "World's Cheapest Car is Launched," news.bbc.co.uk, accessed on April 27, 2009; and "Tata Nano Goes on Sale," www.wsj.com, accessed on April 27, 2009.

roll out the car in the United States a few years after the European introduction.

Other carmakers are joining the fray. Renault-Nissan is teaming up with Indian motorcycle maker Bajaj to launch an ultra-cheap model by the end of 2012. A Nissan top-executive said: “We’re working with Bajaj to make use of their frugal engineering skills and technology, while we’re supplying some financial backing, a strong distribution system and potential expansion to other markets.” (*Media*) Hyundai and several Chinese manufacturers are also looking into the segment.

DISCUSSION QUESTIONS

1. Does the so-called *one lakh* (100,000 rupees) car really have potential beyond India? What criteria should Tata Motors use for deciding which countries to enter? Should Tata also launch the Nano in developed countries? Why or why not?
2. What challenges do you envision in launching the Nano?
3. How should the Nano be positioned? Would you apply the same positioning strategy in, say, India and Germany or would you adjust it? If so, why and how?

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