

## Opportunities in Emerging Markets

- Megamarkets with potential for sustainable growth
- Cost-efficiency platforms
- Innovation platforms
- Learning to compete with the new breed of global competitors – EMNEs

### Megamarkets

- Market sizing depends on
  - Population size → key factor
  - Buying power → key factor
  - Demographics (market segmentation)
  - Cultural norms and habits (spending behaviour, cultural habits and likes, clothing, music, films)
  - Geography (the larger the area, the harder the geographic reach and servicing the population, mountainous or flat plain?)
  - Stage of economic development
  - Multi-tiered socio-economic structure
  - Income disparity
    - Between the tiers, there is a huge gap in terms of income
- Too much diversity in a small population is not that attractive for a company because you can't do a lot of standardization, you have to adapt because you have very small pockets of demand
- Diversity in megamarkets – languages, states/provinces, food, religion
  - Affects company opportunities
- Untapped markets within megamarkets
  - Multi-tiered socio-economic structure → income disparity
  - Bottom of the pyramid remains underserved
    - 60% – 65% of population reside at the bottom of the pyramid
  - Untapped markets are both a challenge and opportunity (need a totally different approach to turn them into an opportunity)
  - India
    - These people can't afford global products, so they are not really part of your market (out of reach → untapped market potential)
    - Unique context and lack of capital resources means that multinationals cannot reach the bottom tier
    - At the most, the top 2 tiers are the ones that can actually afford the products and services from multinationals
    - 3<sup>rd</sup> tier is the aspirers → trying to shift to the tier above so they can consume some of the goods and services that are brought in by MNEs
  - China
    - Low income groups can spend on the same type of things as high-income groups
    - Trickle-down effect has been successful
  - Russia
    - Very low-income disparity

### Cost-Efficiency Platforms

- As countries with some of the lowest wage rates, they have the potential to dramatically reduce a company's global cost structure
- The pool in the labour market is available and it doesn't cost that much
- Literacy rates influence the type of job that can be given to people
- **Examples**
  - India has half the labor force (15 – 64 years old) of China because they have a much smaller median age so more of the population is below 15 years old
  - India has a large rural population so that's why agriculture is 47%
  - Russia has 63% of its labor force in services

### Innovation Platforms

- *Constantly growing value add from these countries*
- **India and China**
  - Large well-trained population and low-cost pool of scientific and engineering talent that is eager for a challenge and career advancement
  - Innovation demanded by the unique needs of the market such as low buying power, energy and raw material scarcity, environmental degradation, large populations and high population densities
  - Reverse innovation for developed country markets

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## Strategies for Responding to Institutional Voids

### Mapping Institutional Contexts

- Managers need to go and try to map the context of the country when entering an emerging market
- Institutions differ among the 5 different dimensions
- 5 contexts framework (Khanna & Palepu, HBR, 2005)
  - These essential contexts need to be considered when executives try to map the context
  - The framework enables executives to map the institutional context of any country



### **Political and social systems**

- Political systems
  - How power is organised in that particular country
  - E.g. is there a monopoly on power? Democracy?
  - Political stability affects and controls the political and regulatory stability of the environment and where the decision-making power lies/is influenced
- Social systems
  - Different elements of the civil society that are likely to influence decision-making and the business environment

- E.g. how free is the media/press? Consumer activist groups? NGO groups? Environmental protection agencies?
- Protect the interests of different groups and  $\therefore$  influence the business environment, decision-making by firms, rules and regulations

### **Openness (to foreign investment)**

- Openness towards FDI into the host country
- E.g. what are the laws governing FDI? Is there a restriction of mode of entry for the foreign firms? Sector/industry restriction regarding FDI?
- Openness also regarding the laws and policies relating to competition/competitive environment
- Openness is also related to how open/global the mindset of local firms is in that host country

### **Product markets**

- Intermediaries that facilitate suppliers of the product to potential buyers of the product and that consumers obtain correct information about the product they are buying
- E.g. market research agencies, retailers, laws regarding products (patents, standards), product certification agencies, product quality testing agencies, reliability of supply chains and distribution of products, availability of retailers
- US
  - Efficient dissemination of information
  - Enforcement of liability laws
  - Activist consumers
- Japan
  - Efficient dissemination of information
  - Enforcement of liability laws
  - Some activist consumers
- India
  - Little information
  - Limited enforcement of liability laws
  - Few activist consumers