10. Understanding Emerging Markets (EMs)
Read chapter 10
Learning Objectives

1. Emerging markets, developing economies, advanced economies
2. Attractiveness of emerging markets for international business
3. Assessing the true potential of emerging markets
4. Risks and challenges of emerging markets
5. Strategies for emerging markets
6. Corporate social responsibility in emerging markets and developing economies
Key Concepts

- Potential of Emerging Markets (EMs)
- Challenges of Doing Business in EMs
- Strategies for Doing Business in EMs
Video: The Amazing Rise of Emerging Markets
Key Concepts

- Potential of Emerging Markets (EMs)
- Challenges of Doing Business in EMs
- Strategies for Doing Business in EMs
**Advanced Economies**
- Post-industrial countries
- High per capita income
- Competitive industries
- Developed commercial infrastructure

**Emerging Markets**
- Former developing economies
- Substantial industrialization
- Modernization
- Remarkable economic growth

**Developing Economies**
- Low-income countries
- Limited industrialization
- Stagnant economies

Video: What are EMs?
## Major Development in EMs

**Population Growth**
- Emerging markets are growing four times faster than mature markets
- By 2020, 6.4 billion people will live in emerging markets
- South Asia and Africa will contribute the most growth

**Consumption Growth**
- By 2020, emerging markets will add 730 million middle- and affluent-class consumers
- These consumers will account for 35 percent of spending, compared with 25 percent today
- Nearly half of the emerging-market population will be middle class or affluent

**Urbanization**
- By 2020, emerging markets will add 600 million urban dwellers
- About 40 percent of the world’s population will live in these cities
- Emerging-market cities will grow ten times faster than mature-market cities

**Trade Liberalization**
- More than 350 free-trade agreements are in place today
- The free-trade movement has been especially strong in the past decade
- The Trans-Pacific Partnership and Regional Comprehensive Economic Partnership talks are ongoing

**Sources:** International Monetary Fund; BCG analysis.
Mass Middle Class Size, 2015 (latest data)

*Circles: Number of middle class households

Year: 2015

Data from Euromonitor International 2016

Dr. Ilke Kardes

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Center for International Business Education & Research
Agenda

Key Concepts

Potential of Emerging Markets

- Challenges of Doing Business in EMs
- Strategies for Doing Business in EMs
Emerging Markets as **Target Markets**
- Many have huge middle classes, with significant income for buying electronics, cars, health care services, and countless other products.
- Many exhibit high economic growth rates.

Emerging Markets as **Manufacturing Bases**
- Home to low-wage, high-quality labor for manufacturing and assembly.
- Large reserves of raw materials and natural resources.

Emerging Markets as **Sourcing Destinations**
- MNEs have established numerous call centers in Eastern Europe, India, the Philippines, and elsewhere.
- Dell and IBM outsource certain technological functions to knowledge workers in India.
- Intel and Microsoft have much of their programming activities performed in Bangalore, India.

Investments from abroad benefit emerging markets as they lead to new jobs and production capacity, transfer of technology and linkages to the global marketplace.
Asustek Uses Low-Cost Smartphones to Target Emerging-Market Growth

Jerry Shen: ‘We Think PC Market Is Flat’


Hugo Boss Targets Emerging Markets to Counter Slowdowns

Hugo Boss AG, the German maker of narrow-cut suits and Jason Wu-designed dresses, will strive for high single-digit percentage sales growth in coming years by focusing on emerging economies.

Source: Bloomberg 2014, Nov 19


Dr. Ilke Kardes
EMs as Manufacturing Bases

BCG's index shows the manufacturing-cost competitiveness of the top 25 export economies relative to the U.S.

Manufacturing-cost index, 2015 (U.S. = 100)

<table>
<thead>
<tr>
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**EMs as Sourcing Destinations**

Global Talent Index 2015 by EIU

Video: Multilingual Indian Kid
Agenda

- Key Concepts
- Potential of Emerging Markets

Challenges of Doing Business in EMs

- Strategies for Doing Business in EMs
Challenges of Doing Business in EMs

1) Political instability
2) Weak intellectual property protection
3) Bureaucracy, red tape, and lack of transparency
4) Poor physical infrastructure
5) Partner availability and qualifications
6) Dominance of family conglomerates
7) EM companies: New global challengers
On the surface, it’s easy to see why regions that are less economically and socially developed are so attractive to investors.

Often growth is faster and many of these areas do not face the developed world’s problem of an ageing population.

But it’s important not to discount the effect of any regional political instability on the value of your investments.

Source: The Telegraph 2015, „The impact of regional political instability on investment,“ Apr 24
(2) Intellectual Property

**Intellectual property**: Ideas or works created by individuals or firms and includes a variety of proprietary, intangible assets: discoveries and inventions; artistic, musical, and literary works; and words, phrases, symbols, and designs.

**Intellectual property rights**: The legal claim through which proprietary assets are protected from unauthorized use by other parties, via trademarks, copyrights, and patents.

- **Trademark**: Symbol, word or thing used to identify a product made by or marketed by a particular firm.
- **Patent**: Protects an invention of a scientific nature.
- **Trade Secret**: Know-how that is kept secret within a particular business.
- **Copyright**: Offers protection against unauthorized copying by others.
An imitation IKEA outlet called **11 Furniture Store** in Kunming, China.

The knockoff store is mirroring IKEA’s store marketing strategy – everything from its blue-and-yellow colors and in-store room displays to special golf pencils and crinkling plastic bags.

GIPC International IP Index 2016

Source: Global Intellectual Property Center, U.S. Chamber of Commerce (April 2016)

### Starting a business in BRAZIL

<table>
<thead>
<tr>
<th>Procedure</th>
<th>Time to Complete</th>
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<tbody>
<tr>
<td>(1) Check company name with JUCESP</td>
<td>Less than one day (online)</td>
</tr>
<tr>
<td>(2) Pay registration fees</td>
<td>1 day</td>
</tr>
<tr>
<td>(3) Register at JUCESP to obtain CNPJ, INSS and NIRE and register with ICMS</td>
<td>7 days</td>
</tr>
<tr>
<td>(4) Register with the Municipal Taxpayers’ Registry of the City of São Paulo</td>
<td>1 day</td>
</tr>
<tr>
<td>(5) Apply and obtain digital certification (token) for the use of e-invoice</td>
<td>2 days</td>
</tr>
<tr>
<td>(6) Apply to the municipality for an operations permit</td>
<td>90 days</td>
</tr>
<tr>
<td>(7) Register and pay TFE to the Municipal Taxpayers' Registry</td>
<td>1 day - simultaneous with (6)</td>
</tr>
<tr>
<td>(8) Register the employees in the social integration program</td>
<td>1 day - simultaneous with (7)</td>
</tr>
<tr>
<td>(9) Open a special fund for unemployment (FGTS) in bank</td>
<td>1 day - simultaneous with (7)</td>
</tr>
<tr>
<td>(10) Notify the Ministry of Labor</td>
<td>1 day - simultaneous with (7)</td>
</tr>
<tr>
<td>(11) Registration with the Patronal Union and with the Employees Union</td>
<td>5 days - simultaneous with (7)</td>
</tr>
</tbody>
</table>

**Total number of days to start a business**: 101.5 days

### Starting a business in the U.S.

<table>
<thead>
<tr>
<th>Procedure</th>
<th>Time to Complete</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Reserve the company’s business name (optional), file the company’s articles of organization and adopt the company’s operating agreement</td>
<td>Less than one day (online)</td>
</tr>
<tr>
<td>2) Apply for federal identification number (EIN) for tax and employer purposes</td>
<td>Less than one day (online)</td>
</tr>
<tr>
<td>3) Register to collect state sales tax</td>
<td>Less than one day (online)</td>
</tr>
<tr>
<td>4) Register as an employer with the Unemployment Insurance Division at the State Labor Dept.</td>
<td>Less than one day (online)</td>
</tr>
<tr>
<td>5) Arrange for workers’ compensation and disability insurance</td>
<td>1 day</td>
</tr>
<tr>
<td>6) Arrange for publication and submit certificate and affidavits of publication</td>
<td>1 day</td>
</tr>
</tbody>
</table>

**Total number of days to start a business**: 4 days


4) Poor physical infrastructure

The Streets of „Old Delhi“ in India

A farmer caused chaos in busy traffic when he walked his ducks almost 1.5km (1 mile) from his farm to a pond in a quest for food. (Taizhou/China, 2012)


Dr. Ilke Kardes
Foreign firms may seek local partners, who provide access to markets, supplier and distributor networks, and key government contacts.

But qualified business partners in emerging markets are not readily available.

Often in emerging markets, one has to contend with second-best or third-best partner candidate, and provide much technical and managerial assistance to upgrade the partner’s capacity.
EMs are often dominated by privately-owned local companies that are highly diversified, and control supplies and employment.

Common in South Korea (chaebols), India (business houses), Latin America (grupos), and Turkey (holding companies).

**Turkey**

**Koç**

**India**

**TATA**

**Mexico**

**GRUPO BIMBO**
### 7) EM Companies: New Global Challengers

<table>
<thead>
<tr>
<th>Brand</th>
<th>Acquirer</th>
<th>Country</th>
<th>Year</th>
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<tbody>
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<td><strong>GODIVA</strong></td>
<td><strong>Yıldız Holding</strong></td>
<td>Turkey</td>
<td>2008</td>
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<tr>
<td><strong>Budweiser</strong></td>
<td><strong>In-Bev</strong></td>
<td>Brazil</td>
<td>2008</td>
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<tr>
<td><strong>Burger King</strong></td>
<td><strong>3G Capital</strong></td>
<td>Brazil</td>
<td>2010</td>
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<td><strong>ThinkPad</strong></td>
<td><strong>Lenovo</strong></td>
<td>China</td>
<td>2005</td>
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<tr>
<td><strong>JAGUAR</strong></td>
<td><strong>Tata</strong></td>
<td>India</td>
<td>2008</td>
</tr>
<tr>
<td><strong>GRUNDIG</strong></td>
<td><strong>Arçelik</strong></td>
<td>Turkey</td>
<td>2009</td>
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</tbody>
</table>

The New Global Challengers benefit from Emerging Markets:
- Rapidly growing markets, some of which are large
- Low-cost labor
- Training grounds for competing with global incumbents
- Complex operating environments, which produce some very capable firms
Agenda

- Key Concepts
- Potential of Emerging Markets
- Challenges of Doing Business in EMs

Strategies for Doing Business in EMs
Managerial Guidelines for Multinationals

Customize business models
Understand distinctive characteristics of buyers, local suppliers, and distribution channels

Partner with family conglomerates (FCs)
FCs can help
- reduce risks, time, and capital;
- develop networks;
- overcome infrastructure hurdles.

Target governments
Government as a buyer and as an influencer!!
Support local economic development

Skillfully challenge competitors from EMs
- Understand local challengers
- Acquire new capabilities
- Leverage the same advantages enjoyed by local firms

### Target Governments: Support Local Economic Development

<table>
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<tr>
<th>Company</th>
<th>Support</th>
<th>Target market</th>
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<tr>
<td>Wal-Mart and Home Depot</td>
<td>Cost-effective distribution channels</td>
<td>Mexico</td>
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<td>Unilever and P&amp;G</td>
<td>Shampoo for less than $0.02 per mini-sachet</td>
<td>India</td>
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<td>Cemex</td>
<td>Low-cost building materials</td>
<td>Poor people</td>
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<tr>
<td>Narayana Hrudayalaya</td>
<td>Health insurance for less than $0.20 per person per month</td>
<td>India</td>
</tr>
<tr>
<td>Cell-phone and telecom firms</td>
<td>Telecommunications infrastructure</td>
<td>Africa</td>
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</table>
Western cosmetics brands are:
- tapping new sources of inspiration from the Far East: Bamboo grass, mushrooms and snails.
- increasingly reaching into South Korea and China to find products with global potential.

**Clinique** brand: a lotion with rice bran extract and pomegranate inspired by beauty rituals from Asia.

**MAC** brand: lipstick shades inspired by the pinks and corals favored by South Korea.

**Bobbi Brown** brand: a skin foundation with bamboo grass, lychee extract and cordyceps mushroom, ingredients often used in traditional Chinese medicine to increase energy and boost health.


Key Takeaways: CH 10

Country clusters

- Developed markets
- Advanced economies
- Emerging markets (growth markets)
- Developing economies (frontier markets)

Opportunities in EMs

- EMs as...
- Target markets
- Manufacturing bases
- Sourcing destinations

Challenges of doing business in EMs

- Political instability
- Weak intellectual property protection
- Bureaucracy, red tape, and lack of transparency
- Poor physical infrastructure
- Partner availability and qualifications
- Dominance of family conglomerates

Management strategies

- Customize business models
- Partner with family conglomerates
- Target governments
- Skillfully challenge EM competitors
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