Atanu Adhikari *Editor*

Strategic Marketing Issues in Emerging Markets

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ISBN 978-981-10-6504-0 ISBN 978-981-10-6505-7 (eBook)
https://doi.org/10.1007/978-981-10-6505-7

Library of Congress Control Number: 2018935233

Printed on acid-free paper

This Springer imprint is published by the registered company Springer Nature Singapore Pte Ltd.
part of Springer Nature
The registered company address is: 152 Beach Road, #21-01/04 Gateway East, Singapore 189721, Singapore

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Part I
Consumers in Emerging Market

Chapter 1
The Study of Consumer Discrete Emotions: A New Imperative in India

Preeti Krishnan Lyndem

Abstract India is a world within the world, a complex melting pot of diverse belief systems, social structures, political views, languages, cultural norms, and consumption patterns. With a population of over 1.2 billion people, second to China, this country is a critical marketplace. Indian consumers are unique, and understanding their discrete emotions and enabling *emotional* connects with brands can help companies garner huge payoffs. The purposes of this chapter are to (a) underscore the possibility of scientifically studying consumer emotions (specifically, discrete emotions) and understanding their role as antecedents, moderators, mediators, and consequences in the consumption process and (b) encourage academicians and practitioners worldwide to study consumer discrete emotions in significant emerging economies such as India. This chapter is organized into three sections. The first section presents the theories of emotions, highlighting the significance of cognitive theories of emotions. Appraisal theories and frameworks are also discussed to help understand the formation of specific discrete emotions. Measurement methods to capture consumer emotions are also discussed. The second section discusses two studies conducted in India. The first study contrasts two positive valence emotions: happy versus hopeful. The second study contrasts two negative valence emotions: benign envy versus malicious envy. Each study throws light on where and how the Indian sample findings add to the existing emotions literature. The last section concludes by summarizing key lessons and calling upon practitioners and academicians to invest in the study of consumers' discrete emotions in emerging economies such as India.

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A. Adhikari (ed.), *Strategic Marketing Issues in Emerging Markets*,
https://doi.org/10.1007/978-981-10-6505-7_1

Introduction

> Emotions are the new rational. We are in an era where product differentiation is reducing; so, the only way to create differentiation is by giving your brand a personality (emotions) that resonates with consumers.
>
> —Ms. Ronita Mitra, Senior Vice President and Head of Brand, Media, Digital, and Consumer Insights, Vodafone India Services Pvt. Ltd.[1]

This statement "emotions are the new rational" by Ms. Mitra, a senior marketing practitioner in India, signals the perspective that emotional connects with consumers are the new source of "sustainable competitive advantage" (Barney 1991) for brands. The new era of consumer emotions and emotional connects with brands as differentiators (vis-à-vis product-centric rational appeals) has dawned. The influence of emotions on consumer information processing, appraisals, and decisions has long been important to consumer behavior. The domain of emotions has witnessed profound progression from being a consequence of rational consumption to being the centerpiece of the consumption process. Today, it is possible to meticulously examine and understand the finer nuances of emotions, particularly the antecedents and consequences of discrete emotions (e.g., happiness, sadness, anxiety, envy, nostalgia). A manager who understands and leverages consumer discrete emotions can forge emotional connects between consumers and their brands and, thereby, enjoy stronger competitive advantages in the marketplace.

India, home to over 1.2 billion people, is without question an attractive customer base for today's global managers. The world's largest democracy is a complex melting pot of diverse belief systems, social structures, political views, languages, cultural norms, and consumption patterns. Currently classified as an emerging economy, this country (a) is young and vibrant with over 65% of its population under 35 years of age,[2] and (b) has a steadily growing middle class strongly fostering the consumer market.[3] Indians as *consumers* are value-conscious; however, as *people* they are emotional.[4] In order to get them to engage with any brand, marketers will need to target their hearts (i.e., their emotional sensibilities) instead of merely focusing on their minds (i.e., their logical reasoning).

In a recent brand engagement, Gensler Research (2016) conducted a research on emotional connects of Indian and American consumers with brands in various sectors. The concept of emotional connect implies that organizations that wish to do well can earn sustained maximum payoffs by connecting with their customers' emotions (Magids et al. 2015). The pursuit of emotional connections with

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[1]http://www.business-standard.com/article/printer-friendly-version?article_id=113120800261_1. Accessed on January 5, 2017.

[2]http://www.indiastat.com/demographics/. Accessed on January 7, 2017.

[3]https://ecell.in/eureka13/resources/tracking%20the%20growth%20of%20indian%20middle%20class.pdf. Accessed on January 15, 2017.

[4]http://www.rediff.com/money/2009/may/01brands-are-ultimately-about-emotions.htm. Accessed March 7, 2017.

consumers is an important task and ought to be practiced both as "a science and a strategy" (Magids et al. 2015, p. 4). Gensler Research (2016) found that in India, emotional connects are most significant for brands in the technology sector and lowest in the food and beverage sector. Interestingly, this is exactly opposite for American consumers. Americans' strongest emotional connects were found to be in the food and beverage sector and lowest in the technology sector. This significant difference can be attributed to many reasons, one of them being the nature of these two economies (India: emerging and USA: developed). It is, therefore, important for multi-national brand managers to be acutely sensitive about consumers' emotions and emotional connect not just by category, but also by region/economy. One size marketing strategy will not fit all.

This chapter, therefore, has two purposes. The first purpose is to underscore the possibility of scientifically studying consumer emotions (specifically, discrete emotions) and understanding their role as antecedents, moderators, mediators, and consequences in the consumption process. A look into the key theories and measurement practices of emotions will help acquire the requisite understanding. The second purpose is to encourage academicians and practitioners worldwide to study consumer discrete emotions in significant emerging economies such as India. Research in emotions is still a "western" phenomenon with respondents recruited from developed countries. Such studies can be limited in the generalizability of their findings to other economies, such as to India.

In order to realize the above-mentioned purposes, this chapter is organized into the following three sections. The first section "Section A: Theories of Emotions and Measurement" presents the current understanding and consensus regarding the theoretical, methodological, and empirical aspects of emotions. In the second section "Section B: Two Studies in India," findings from two studies conducted by me in India recruiting Indian respondents are shared. These studies were chosen for this chapter on the basis of their contrastive nature (positive versus negative valence emotions) and their ability to enhance the existing emotions literature. Study 1 examines the impact of positive valence emotions *happy* versus *hopeful* on consumer non-decision, and Study 2 examines the antecedents, composition, and consequences of negative valence emotions *benign envy* vis-à-vis *malicious envy*. Finally, "Section C: Conclusion" summarizes the key takeaways from the earlier sections and calls upon practitioners and academicians to invest in the study of consumers' discrete emotions in emerging economies such as India.

Section A: Theories of Emotions and Measurement

An emotion is "a mental state of readiness that arises from cognitive appraisals of events or thoughts; has phenomenological tone; is accompanied by physiological processes; is often expressed physically" (Bagozzi et al. 1999, p. 184). Compared to moods and attitudes, emotions are more intense (Bagozzi et al. 1999; Erevelles 1998). This definition leans toward *cognitive theories of emotions* where consumers' cognitive appraisals of events are necessary for emotions to manifest (Lazarus 1991; Roseman 1991; Weiner 1985). Current research in emotions is anchored more strongly on such cognitive theories. However, one cannot negate the existence and validity of another camp based on the *psychoevolutionary theory of emotions* (Plutchik 1982) which believes that basic emotions can be experienced and expressed without the presence of any cognitive appraisal (Izard 1992; Slama 2005). The research studies in Section B are both based on Lazarus' cognitive theory of emotion (1991) and Weiner's attributional theory of emotion (1985).

While events or situations are frequently associated with specific emotions, it is the *appraisal* of such events or situations (and not the events or situations themselves) that causes emotional responses. Appraisals, thereby, play a central role in the formation of emotions. It is believed that consumers compare their achieved state with their desired state and such comparison would lead to appraisals and attributions which consequently result in emotions. This approach is powerful in that it is possible to predict which discrete emotion will be experienced based on situational antecedents. For example, Roseman (1991) hypothesized that particular combinations of five appraisals such as (1) motive consistent/motive inconsistent, i.e., positive emotions versus negative emotions, (2) appetitive/aversive, i.e., presence of reward or absence of punishment, (3) agency, i.e., outcome perceived to be caused by impersonal circumstances, by another person, or by self, (4) probability, i.e., outcome is certain or uncertain, and (5) power, i.e., weak versus strong coping potential) would determine which sixteen unique emotions (surprise, hope, fear, joy, relief, sadness, distress, disgust, frustration, liking, dislike, anger, pride, shame, guilt, and regret) will be experienced by people in any situation. Another similar combination of appraisals that result in discrete emotions was proposed by Watson and Tellegen (1985).

Marketers who want their consumers to be emotionally connected with their brands can study such appraisal theories to identify the combinations of appraisals that can trigger marketer-desired discrete emotions in target customers. For example, giving candies to customers will trigger immediate happiness (Isen et al. 1992), regret is experienced when the agency is perceived to be self (Roseman 1991), etc. Similarly, studies on emotions have found certain well-established patterns: Across cultures, men are more likely to express anger and women more likely to express sadness (Martin 2003), older consumers use emotion-focused coping vis-à-vis younger consumers that use problem-focused coping (Carstensen 2006; Scheibe et al. 2015), and emotions are mediators of consumer responses to advertising (Holbrook and Batra 1987).

Despite their importance, one of the biggest challenges in emotions is their measurement. Focus groups, in-depth interviews, projective techniques, role-playing, deprivation questioning, etc., can all provide qualitative insights into consumers' emotions and their nature and magnitude of feelings toward brands (Day 1989). Poels and Dewitte (2006) have documented a 20-year review of the advertising industry's measurement approaches such as verbal self-reporting, self-assessment manikin, autonomic measures, neuroscience, and brand imaging. All methods have pros and cons, and it is always recommended to use a mixed-method approach to measure consumer emotions. Almost *all* of the theory development and empirical research in emotions have been conducted in the developed economies.

Section B: Two Studies in India

This section discusses two research tracks undertaken by me relevant to the topic of discrete emotions. The first research track compares two positive valence emotions (happy and hopeful). The second research track compares two negative valence envy types (benign envy and malicious envy). These studies were picked for this chapter on the basis of their contrastive nature (positive versus negative valence emotions) and their ability to enhance the existing emotions literature. Both studies have Indian consumer samples and highlight where and how the Indian findings stack up against existing theories and findings.

Research Track 1. Happy Versus Hopeful

Valence (i.e., positive and negative) used to be considered as the primary dimension on which discrete emotions differed. Hence, early research focused on the broad classification of positive and negative affect (e.g., Schwarz and Clore 1983). Subsequent and more recent research, however, has not only established differences between positive and negative affect (e.g., DeSteno et al. 2000; happy versus sad mood—Goldberg and Gorn 1987) but also distinguished between discrete emotions of the same valence (e.g., anxiety versus sadness—Raghunathan and Pham 1999; anger versus sadness—Garg et al. 2005).

Based on the appraisal theories of emotions (e.g., Roseman 1991), Smith and Ellsworth (1985) identified six underlying cognitive dimensions along which emotional experiences differed. These included certainty, pleasantness, attentional activity, control, anticipated effort, and responsibility. Past research has extensively studied the impact of the dimension of certainty ("extent to which a person understands and is certain about what is happening in the situation" (Garg et al. 2005, p. 155) on subsequent decision-making (e.g., Garg et al. 2005; Tiedens and Linton 2001). Within negatively valence emotions, anger and sadness were found to differ on the appraisal dimension of certainty with anger being higher on certainty than sadness (Smith and Ellsworth 1985). Similarly, within positively valence emotions, hope and happiness differ on the dimension of certainty with happiness being higher on certainty than hope (Smith and Ellsworth 1985, p. 829, Table 6).

Research Objectives

The purpose of this study is to demonstrate that even positive discrete emotions would impact consumer non-decision (choice of avoidant strategy). Specifically, happy versus hopeful discrete emotions are examined where theoretically happy (like angry) is high on the "certainty" appraisal dimension and hopeful (like sad) is low on the "certainty" appraisal dimension (Smith and Ellsworth 1985). Furthermore, the interplay between positive incidental emotions (happy versus hopeful) and task-related affect (triggered by low or high trade-off difficulty) will be examined.

Contextually, Garg et al. (2005) had studied the impact of negative incidental affective states (anger and sadness) on consumer non-decision in the scenario of a car purchase. In India, it is unlikely for consumers to buy a car when they are angry or sad. Therefore, the objective of this study is to extend Garg et al.'s (2005) work by examining how positive affective states impact consumer non-decision, specifically examining the differential impact of incidental affective states of hope and happiness when faced with a car purchase context.

Conceptualization, Propositions, and Methodology

The literature classifies hope and happiness as positive emotions (e.g., Roseman 1991; Smith and Ellsworth 1985). Happiness has been conceptualized as an emotion experienced when one attains a positive goal or avoids a negative one (e.g., Roseman 1984). On the other hand, hope is an affective experience when a future outcome is appraised to be more favorable than the present. For instance, marketing campaigns such as "Miracle Drug will help lose weight in 5 days!" elicit the emotion of hope. Smith and Ellsworth (1985) found that on the dimension of pleasantness, happiness is relatively more pleasant than hope (p. 829, Table 6). In other words, happiness is relatively more positive an emotion than hope. On the dimension of certainty, happiness scores higher (Smith and Ellsworth 1985, p. 829, Table 6). This means that compared with hope, happiness is associated with a higher degree of certainty. Since individuals who experience greater certainty process information heuristically and individuals who experience greater uncertainty process information more systematically (Tiedens and Linton 2001), happy individuals should process information more heuristically, whereas hopeful individuals should process it more systematically.

Research shows that when there is high trade-off difficulty, consumers would experience negative task-related affect and cope with such affect by "non-decision" avoidant strategies such as prolonging the search (Luce 1998), or maintaining status quo (Garg et al. 2005; Luce 1998). Thus, in the high trade-off difficulty condition, all subjects will choose an avoidant strategy regardless of incidental affect. Thus, the first hypothesis is to reconfirm the main effect of emotional trade-off difficulty

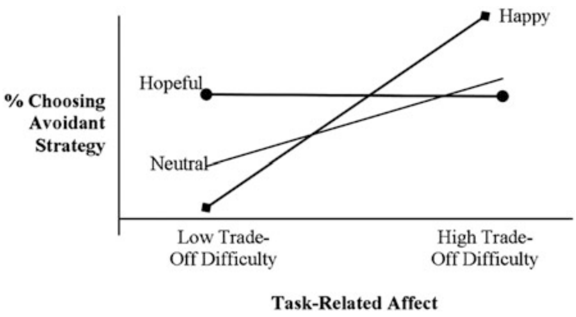


Fig. 1.1 Hypothesized choice proportions of the avoidant strategy. Prepared by the Author

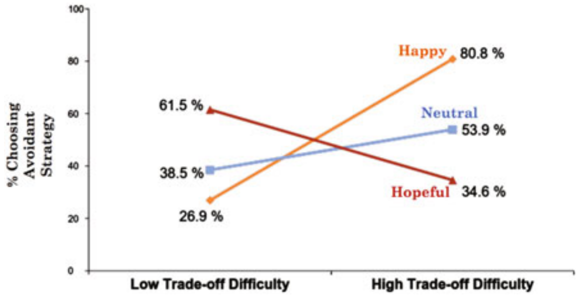
(Luce 1998): Consumers in the neutral incidental affective state will be more likely to choose an avoidant strategy (i.e., non-decision—e.g., status quo option) under high trade-off difficulty than under low trade-off difficulty. The second hypothesis is: A greater proportion of happy consumers will choose the avoidant strategy under high trade-off difficulty when compared with neutral consumers. The third hypothesis is: A higher proportion of hopeful consumers will not choose the avoidant strategy under high trade-off difficulty when compared with neutral consumers. Figure 1.1 illustrates the hypotheses.

The research design was a 3 (incidental affect: happy, hopeful, neutral) × 2 (trade-off difficulty: high, low) experimental design. Data collection methodologies were adopted from Garg et al. (2005), Lerner and Keltner (2001), and Luce (1998). A life events survey was conducted for manipulating incidental affect, followed by a marketing survey for manipulating trade-off difficulty in the car-buying process (similar to Garg et al. 2005 procedure). The primary dependent variable was brand choice with avoidant strategies included in the list. One hundred and eighty business school students from Mangalore city in India participated in the study. The experiment was administered in English. The responses of 156 consumers were usable.

Findings

All three hypotheses were supported (Krishnan 2009). Figure 1.2 demonstrates the actual findings in India. A greater proportion of happy consumers when under high trade-off difficulty make a non-decision (choose avoidant strategy). A lesser proportion of hopeful consumers when under high trade-off difficulty make a non-decision (choose avoidant strategy). Car companies might need to emphasize more on hopefulness (vis-à-vis happiness) if consumer trade-off difficulty is expected to be high (vis-à-vis low).

Fig. 1.2 Study results of the choice proportion of the avoidant strategy. Prepared by the Author



Discussion

This research extends the existing emotions and consumer choice literature by theorizing and empirically testing such that unlike previous research which emphasized the role of only negative affect on consumer non-decision (Luce 1998; Garg et al. 2005), even positive affect (specifically, *happiness,* and *hope*) could result in the avoidant strategy of "non-decision" under high trade-off difficulty consumer choice contexts. The findings from the Indian consumer sample provide support to the theoretical underpinnings of positive discrete emotions. Happy consumers behave similar to angry consumers, and hopeful consumers behave similar to sad consumers (*angry* versus *sad* was studied in Garg et al. 2005).

If a marketer knows that a consumer will face high (vs. low) trade-off difficulty in making a choice for his brand, it is better to keep the customer hopeful (vs. happy) instead of happy (vs. hopeful). It is more (vs. less) likely that a hopeful (vs. happy) customer will make a choice for his brand given high trade-off difficulty. In contrast, given a low trade-off difficulty, it is more (vs. less) likely that a happy (vs. hopeful) customer will make a choice for his brand.

In the study scenario, customers entered the car choice task either in a *happy* or a *hopeful* incidental affective state. Incidental affect, also known as "irrelevant" affect (Garg et al. 2005, p. 158), has its source in factors external to the consumption task and can be viewed as a *moderator* in a consumption context. It is *antecedent* to task-related affect, attitudes, behavioral intentions, and behaviors. For example, a consumer enters a store in a negative affective state after waiting for her doctor who never showed up at the clinic. Research shows that incidental affect influences consumers' information processing and, consequently, consumption choice (Garg et al. 2005; Lerner and Keltner 2000; Schwarz and Clore 1983). It is necessary for marketers and practitioners to override incidental affect by priming customers to experience the desired discrete emotions appropriate to engage with their brands.

It is also possible for customers to experience task-related affect. Task-related affect, also known as "relevant" affect (Garg et al. 2005, p. 158), has its source in the decision task itself (Luce 1998; Garg et al. 2005) and can be viewed as both a *moderator* and a *mediator* in research studies. It is a *consequence* of choice task difficulty, and *antecedent* to attitudes, behavioral intentions, and behaviors. For example, negative affect originates when a consumer has to make a highly difficult trade-off (Luce 1998). For example, choosing a car brand comparing high trade-off attributes such as safety, mileage, and maintenance costs. This negative affect will be absent when the trade-off difficulty is low. For example, choosing a car brand comparing low trade-off attributes such as color, shape of lights, and car stereo brand.

Research Track 2. Benign Envy Versus Malicious Envy

Envy is rampant in the consumer context. There are many brands that are positioned on envy (e.g., Onida and Samsung Envy). It is driven by upward social comparison where a similar other is possessing a coveted object desired by the individual (Van de Ven et al. 2009). Research shows evidence for two distinct types of envy, namely benign and malicious envy that differ on motivations (Van de Ven et al. 2009) where high (vs. low) deservingness is an antecedent for benign (vs. malicious) envy (Van de Ven et al. 2012). Benign envy motivates a person to move upward to match the other's position, whereas malicious envy motivates the person to pull down the other to one's current level. These nuanced sub-types of envy have not been studied in the consumer context with the exception of one study on envy premium (Van de Ven et al. 2011).

Current Challenges in Envy Research

Direct measurements of benign/malicious envy have happened only in languages that have separate words for each envy type (e.g., Dutch), making it difficult to directly measure them in English. Some psychologists argue that only malicious envy should be considered "envy proper" and benign envy is synonymous with admiration. However, research has shown that benign envy differs from pure admiration because it motivates the person to improve oneself whereas admiration resorts to passive surrender (Van de Ven et al. 2011). During upward social comparison, consumers experience a mix of envy and admiration. It is highly unlikely to solely experience only one discrete emotion without the other.

Research Objectives

Aiming to further the understanding of envy types in the consumer context in India by (1) identifying discrete emotion components that constitute benign and malicious envy, (2) identifying new appraisal dimensions that evoke benign versus malicious envy, and (3) understanding the process of how benign versus malicious envy impacts brand attitude, two studies (depth interviews, experiment) were conducted by us (Gupta and Lyndem 2016).

Envy Conceptualization, Propositions, and Methodology

In this Indian study, we conceptualized benign and malicious envy as mixed emotion states (envy + admiration) with differing strengths. Considering emotions as bundles allows for incorporating the complexity of emotional responses which occur as a mixed state of various discrete emotions (Westbrook and Oliver 1991). Both admiration and envy are other-focused, upward comparison emotions. They differ on the dimension of assimilative versus contrastive comparison. Assimilative (contrastive) comparison emotions aim at congruency with (differentiation from) the comparison target (Smith 2000). We propose that benign (malicious) envy cluster constitutes relatively higher proportion of the assimilative (contrastive) emotion of admiration (envy).

A key antecedent for envy type is the deservingness of the other (Van de Ven et al. 2012). However, the presence of strong interpersonal attitudes makes deservingness a weak influencer in the emotions felt toward another person's achievement (Pietraszkiewicz and Wojciszke 2014). We identify an additional appraisal dimension of communal versus exchange relationship type (Mills and Clark 1994) with the opponent. We propose that the perceived high deservingness of the winner and communal (vs. exchange) relationship lowers malicious envy. Furthermore, communal relationships would override low deservingness and further mitigate malicious envy. Our qualitative depth interviews probed three consumers using third-party projective techniques to uncover contexts that evoke benign versus malicious envy. Our study revealed "foul-play" operationalized as "using friends/relatives" influence in getting rewards' as another possible factor driving malicious envy.

To understand how these contextual factors influence envy type, we study their impact on admiration and envy. We propose that high deservingness and communal relationship would increase (decrease) admiration (envy), whereas foul-play would increase (decrease) envy (admiration). Since benign (malicious) envy is composed of assimilative (contrastive) comparison emotions, we propose that communal relationship and deservingness (foul-play) would increase (decrease) self-other congruity. We further propose that malicious (benign) envy would negatively (positively) impact brand attitude primarily via envy (admiration).

We tested these propositions in a 2 (deservingness: low/high) $\times$ 2 (relationship type: communal/exchange) $\times$ 2 (foul-play: control/present) between-subjects experimental design with 209 graduates in a Bengaluru-based business school in India. The scenario involved a hypothetical case-study competition sponsored by a bank, with a coveted prize (chosen based on a qualitative study). Deservingness was manipulated on the basis of work hours and rigor invested by the opponent. Relationship type was manipulated by describing the nature of time spent together. The scenario ended with the other participant winning the case-study competition. Foul-play was manipulated by mentioning about the winner's uncle being an employee of the bank having influenced the decision. All responses were captured on seven-point Likert scales. The experiment was fully administered in English.

Fig. 1.3 Findings of the envy study in India. Prepared by the Author (from Gupta and Lyndem 2016)

Findings

Results (Fig. 1.3) supported the propositions. Cluster analysis revealed two clusters with significantly opposite proportions of envy and admiration. Benign (malicious) envy has a higher (lower) proportion of admiration than envy. Using cluster membership as the binary measure of envy-type, binary logistic regression reveals that malicious envy (vs. benign) increases with low deservingness, exchange relationship, and foul-play. A pre–post repeated-measures test showed that deservingness (foul-play) significantly increased (decreased) self-other congruence. Regression shows that deservingness increases (decreases) admiration (envy), communal relationship increases admiration (no impact on envy), and foul-play decreases (increases) admiration (envy). One-way ANOVA shows that consumers feeling malicious (vs. benign) envy have lower positive brand attitude. Regression among benign cluster members revealed envy (admiration) has a significant negative (positive) impact on brand attitude. The magnitude of impact of admiration is significantly higher than envy, whereas among malicious cluster members, only envy (not admiration) has a strongly negative impact on brand attitude.

Discussion

While other countries have different words for benign and malicious envy and being distinct from admiration, in India we find that the novel approach of measuring nuances between emotional responses by treating them as clusters instead of factors is appropriate. The Indian consumer sample clustering to define envy-type membership is a novel contribution to envy research. Our study advances our understanding of the emotion of envy and its appraisal dimensions by introducing relationship type as a new appraisal dimension that can be used for research on other emotions in the consumer context.

In the above study, envy and admiration are both *consequences* of the scenario. They are also *antecedent* to attitudes, behavioral intentions, and behaviors. When treated as clusters, they serve as *moderators* in the marketing context as well.

A key question for marketers is whether to position their brands on envy. For example, a famous TV brand in India, Onida, was positioned as “neighbor’s envy, owner’s pride.” However, in India, consumers spend close to $40 billion to cope with anticipated malicious envy, i.e., evil eye (Gupta and Lyndem 2016). Companies that trigger the emotion of envy might be enabling their customers to shun or downplay their brand as a coping mechanism. It is yet to be determined when a customer switches from admiration to benign envy to malicious envy. Given the lack of understanding regarding the nuances of the shades of green, it might be advisable for marketers to stay away from using this emotion as a cue in their emotional connect campaigns.

Section C: Conclusion

It is possible to scientifically study consumer discrete emotions. Cognitive theories of emotions and appraisal frameworks lend themselves to view the role of emotions as *antecedents*, *moderators*, *mediators*, and *consequences* in the consumption process. Adopting the cognitive theories of emotions, it is possible today to clearly map out the antecedents and consequences of discrete emotions, which means marketers can more accurately enable and sustain emotional connects between consumers and their brands. While it might suffice for companies to merely focus on omnibus categories, namely *positive emotions* and *negative emotions*, it is highly recommended to identify the exact discrete emotions that they wish their consumers to experience and express, including complex mixed emotions (e.g., envy + admiration in Gupta and Lyndem 2016). It is also feasible to measure emotions both qualitatively and quantitatively. Substantial theories exist in the literature; however, these need to be tested for validity and boundary conditions in real marketing situations. Companies can test the success of their marketing campaigns by including measures of “share of heart” and not merely “share of mind.”

The two studies discussed have important takeaways for academicians. At a basic level, academicians can test their existing theories and hypotheses in the Indian market. Such studies can either validate or question their current findings. For example, the *happy* versus *hopeful* scenario could be tested using American respondents and *angry* versus *sad* could be tested in India and/or other emerging economies. At an advanced level, though, it is likely that the Indian market facilitates the formation of new theories and new understandings. For instance, the clustering of envy and admiration to arrive at envy-type membership (benign versus malicious) as discussed in research track 2 is a new addition to the existing literature. Similarly, a study on coping with anticipated malicious envy might reveal the pitfalls of positioning on envy. Further studies on such discrete emotions are necessary to ensure that marketing theories stay relevant in emerging economies and the changing marketplace.

Similarly, there are vital lessons for practitioners. Without neglecting the study of consumer behavior, it is beneficial for marketers to study the impact of consumer

Table 1.1 Search results on cross-cultural studies on emotions involving India. Prepared by the Author

Authors (year)	Source	Title	Countries contrasted
Laukka et al. (2016)	Journal of Personality and Social Psychology	The expression and recognition of emotions in the voice across five nations: A lens model analysis based on acoustic features	India versus Australia, United States of America, Kenya, and Singapore
Raval et al. (2013)	Social Development	Mothers' socialization of children's emotion in India and the USA: A cross- and within-culture comparison	India versus United States of America
Crowe et al. (2012)	Social Psychology	Process of emotion communication and control	India versus United States of America
Soundararajan (2010)	Review of General Psychology	Two flavors of aesthetic tasting: Rasa and savoring a cross-cultural study with implications for psychology of emotion	India versus China
Elfenbein et al. (2002)	Emotion	Cross-cultural patterns in emotion recognition: Highlighting design and analytical techniques	India versus United States of America and Japan

emotions too. They need to consider consumer emotions as a significant *resource* (Wernerfelt 1984) in their marketing tasks. This resource can be managed either as an antecedent, a moderator, a mediator, or a consequence in a consumer's consumption process. Marketers who want their consumers to be emotionally connected with their brands can study appraisal theories and cognitive theories of emotions. A clear understanding of consumer attributions to brands or consumption contexts can trigger the marketer-desired discrete emotions in target customers. For example, giving candies to customers will trigger immediate happiness (Isen et al. 1992) and anger is experienced when the agency is perceived to be other (Roseman 1991). The two studies can give insights to practitioners about how emotions can be incidental, task-related, and mixed. In terms of measuring emotions, it is recommended to use a mixed-method approach instead of only qualitative or quantitative metrics. When deciding on brand positioning and product positioning, marketers will need to ensure that such positioning does not wrongly trigger or adversely interfere with marketer-desired consumer discrete emotions.

Finally, almost *all* of the research in emotions is conducted in the developed western world. A detailed search on ProQuest and EBSCOhost revealed *only* five papers (Table 1.1) published in psychology journals dealing with the cross-cultural differences between Indian respondents' emotions vis-à-vis other country respondents. None of these are in pure marketing contexts. Obviously, the findings from the western studies and non-marketing context studies (in Table 1.1) cannot be blindly extended to India and marketing contexts.

Clearly, there is a dearth of empirical work in the domain of consumer emotions in India and other emerging economies. As India has the advantage of accelerating toward becoming the world's knowledge center, thought- and practice-influencer, and economic superpower,[5] it would be in good stead for practitioners and academicians to invest more in empirically examining the Indian consumers' emotions landscape. There are sufficient theories and measurement approaches to accomplish this. In order to equip marketers worldwide, it is of great benefit to mark the study of consumer discrete emotions in India as an imperative.

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Chapter 2
Consumer Behaviour in Emerging Markets

Rima Bhattacherjee and Atanu Adhikari

Abstract Consumer purchase behaviour concerns with the aspects of activities that start prior to purchase, during usage, post-purchase consumption and evaluation of the activities at various levels. It is also concerned with the people involved, either directly or indirectly, in purchasing decisions and end-user consumption activities including influencers and opinion leaders of the brand (https://www.slideshare.net/bmoghimi/consumer-behavior-and-marketing-strategy-chapter-1-moghimi?next_slideshow=1). The article includes the major issues that influence the purchase behaviour of the consumers. Some of the factors are (1) quality of the product/service, (2) innovation in value proposition of the product/service, (3) technology influence on the purchase, (4) cross-culture influence, (5) economic factors. The paradigm shift in the buying behaviour of the consumers has led the emerging markets mould their strategies positively. The market is emerging in a very faster pace with the consumers being more aware and accepts the innovation of the products and/or services on a regular basis. The market hence is facing variety of issues with the sudden and rapid change in purchase behaviour (http://www.yourarticlelibrary.com/products/5-factors-influencing-consumer-behaviour-explained/22163/).

Introduction

William J. Stanton defined, ‘A motive can be defined as a drive or an urge for which an individual seeks satisfaction. It becomes a buying motive when the individual seeks satisfaction through the purchase of something’. A motive is a need or an

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A. Adhikari (ed.), *Strategic Marketing Issues in Emerging Markets*,
https://doi.org/10.1007/978-981-10-6505-7_2

inner urge that motivates a person to decide and take purchase action to satisfy two kinds of wants, viz. core wants and secondary wants.[1]

Consumer behaviour is the study of the individuals, organizations or groups and the processes they use to select, use, and bestow products, services, or experiences to satisfy their requirements. Individually, the characteristics of the consumers vary with change in demographics, lifestyles, personality and behavioural variables such as rate of usage, occasion of usage, brand loyalty, product/service referrals (Adhikari 2017; Adhikari et al. 2017).[2]

Consumer behaviour helps in identifying the target segments, target market, target population, methodology to target, when to reach the consumers, and what message is to be given to reach the target audience to buy the product/service (Adhikari 2015).[3]

The determinants of consumer buying behaviour are as follows (Fig. 2.1).

Consumer Behaviour—Emerging Issues

With the emergence of technology, consumers have access to every information regarding all available products and services they want to avail. Presently, consumers have become more smarter, the requirements and preferences have changed. The luxuries of life in past have now become necessities. The consumers now have variety of options, and the competition in the market has increased to a great extent with advancement of technology and people overall.

Consumer Behaviour—Yesterday and Today

Consumer behaviour in the past: consumers in the early days had very limited awareness of the options of the products. The economy and affordability were very less, and hence, the market had local shops to cater to their basic needs. The shops were highly unorganized and had less marketing communications. The market was not segmented in an appropriate manner, and the target segments were not well defined. The promotional offers were targeted only the influencers of the consumers. The consumers had to go to different shops or outlets to fulfil their needs or requirements. The focus was to fulfil the basic needs of the consumers (Fig. 2.2).

[1]www.yourarticlelibrary.com.

[2]https://deepblue.lib.umich.edu/bitstream/handle/2027.42/39704/wp320.pdf.

[3]https://www.slideshare.net/BBAdvisor/bb-chapter-one-consumer-behavior-and-marketing-strategy.

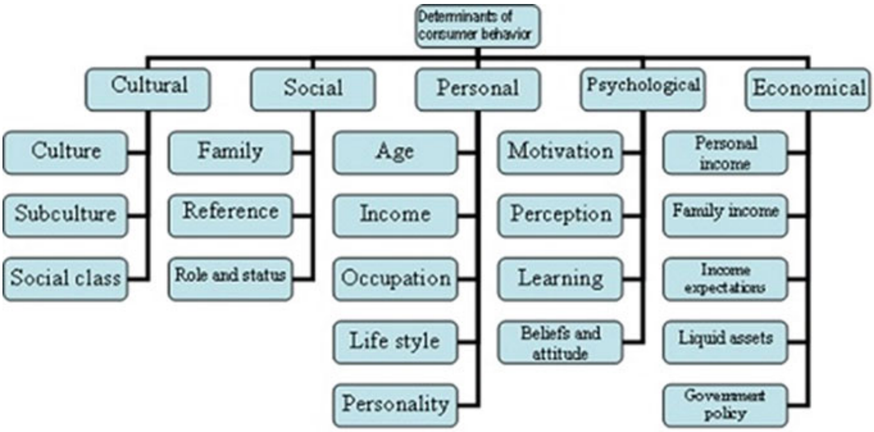

Fig. 2.1 Determinants of consumer behaviour (https://www.tutorialspoint.com/consumer_behavior/images/determinants_of_consumer_behavior.jpg)

Fig. 2.2 Consumer purchase behaviour in the past. Prepared by author

Consumer Behaviour in the Present

After industrial revolution, the market is very well placed to target the consumers as per their demands. The consumer's knowledge and awareness about various products in the same category influence the market to expand. The stores are well organized and give number of options for any given product line under one roof. The consumers now have the privilege to choose a product from the variety of products available. The products and buying behaviour are more towards luxury and impress others (Adhikari and Roy 2017) (Fig. 2.3).

The root cause of the emerging issues in consumer behaviour has been identified as consumerism. Consumerism is the advancement of consumer-oriented tendencies which is marked by variety of products available and active advertising of the products through various communication channels.[4] The marketers today have identified the factors that influence the buying behaviour. The factors are as follows:

- Quality of products and/or services:
  The consumers prefer the products that are long lasting and reliable to use. The consumers rely on heuristics to judge the product quality across all competitive products in the market prior to purchase. The consumers lack expertise in assessing, and hence, the quality of any product or service is very subjective in the vision of the consumers (Adhikari and Bhattacharya 2016).[5]
  The consumers studies various reviews, looks for the brand name, warranties or guarantees, advertisements, etc., to assess quality of the product. With increase in competition and availability of variety of options, it becomes very challenging for the marketers to approach the consumers.
  The marketers look for constant change in their branding of the products which includes change in packaging, use of various colours and shapes, change in taglines, celebrity endorsements, sales promotions, etc., in order to be in the vicinity of the target customers (Lakshman et al. 2017) (See Footnote 7).[6]
  Experience of the customers with respect to use of product or service plays a very important role in perception of the quality. Marketers always look for providing good experience to the customers and focus more on increasing the brand equity in order to prove best quality product in the market compared to the competitors (See Footnote 8).
  Thus, marketing strategy has to gain more acute knowledge about the meanings that consumers give to various attributes to perceive product or service quality.
- Innovation in value proposition of the product/service:
  Customers are more inclined towards having experience of something new every time, and they look for any product which they have already experienced

[4] https://www.tutorialspoint.com/consumer_behavior/consumer_behavior_quick_guide.htm.

[5] http://ijecm.co.uk/wp-content/uploads/2016/04/4445.pdf.

[6] https://mpra.ub.unimuenchen.de/11142/1/Consumer_Behavior_Product_Characteristics_and_Quality_Perception.pdf.

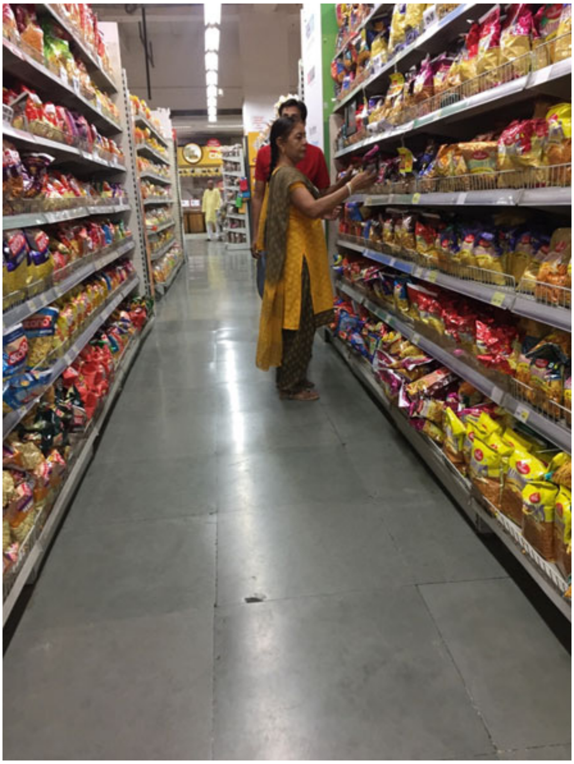

Fig. 2.3 Consumer purchase behaviour in the present. Prepared by author

in the past. Customers feel motivated to purchase any product when they see up gradation and added features in an innovative way for any product/service. The marketers need to keep themselves updated with the taste and expectation of the customers towards their products. With every new element that is added to any product, the marketer needs to promote it extensively so that the customers are motivated to purchase the product.

Sales promotions and various discounts offer great impact on the purchase decisions. Heavy discounts on festive seasons and special occasions do affect the decisions of the influencer, decider as well as the buyer. Attractive promotional offers lead to change the perceived decision-making capability of the consumers. Consumers are most likely to purchase more if they are aware of some social cause and/or environment-friendly product.[7]

The marketers should also have sales promotions for their value proposition in order to increase their sales and penetration of the brand and the product into the market. The marketer should strategise to enter into every segment of the market

[7]http://sloanreview.mit.edu/article/developing-new-products-in-emerging-markets/.

so that the target group population is increased which in turn would help the company with better return on investments (ROI).[8]

Constant innovations in products or value propositions help the company to maintain its competitive advantages and thus increase the growth of business. Innovation in value proposition can influence purchase decisions among the consumers in two different ways. It either would create demand for the product or influence the decider to purchase the product. This in turn increases brand equity in the market.[9]

- Technology influence on the purchase:

  Customers are becoming technology friendly more nowadays and that is the demand of the hour nowadays. Gadgets such as smartphones evolving in the market and with development of various applications, consumers find the purchase of products more convenient. Smartphones create another venue for the customers to surf the Internet, shop, bank, etc. Customers expect that the comfortability to live and lead a day-to-day life should be within their palm. This has lead to increase in customer's convenience wherein they can shop from anywhere in the world (Jha and Adhikari 2016).[10]

  Social media including social networking sites, blogs, professional networking, photograph and video sharing sites are also becoming essential channels of communication among Internet users. Online education also accounts for maximum slab of e-learning. Payments over mobile phone through various applications have become a potent method of transferring money to point of sale (POS) outlets. Mobile applications have a huge potential due to its vast diversity and variety of offerings to serve the customers. Internet of things (IOT) has a great potential to relate various stimuli from different consumers and from multiple resources and that relocates the data over a network wherein human to human interaction or human to computer interaction do not exist.[11]

  Consumers are more comfortable in shopping online through apps and do not feel the requirement of tradition touch and feel method to buy any product. Consumers rely more on the reviews published in the Websites rather than using their own judgements. This leads to the presence of online platform rather than a virtual one. The traditional marketers and the smaller retailers find this to be very challenging to reach out to the desired customers in order to continue their business.[12]

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[8]http://www.qmtmag.com/display_eds.cfm?edno=5981555.

[9]https://www.slideshare.net/kaushikdeb89/innovation-adoption-process-consumer-behavior.

[10]http://www.business2community.com/business-innovation/technologys-influence-on-consumer-behavior-0585685.

[11]https://www.linkedin.com/pulse/20140618125231-6298117-technology-innovation-that-will-change-consumer-behaviour.

[12]Adopting television as a new channel for e-commerce. The influence of interactive technologies on consumer behaviour, Lorena Blasco-Arcas·Blanca Hernandez-Ortega· Julio Jimenez-Martinez.

- Cross-culture influence:
  Culture among the buyers' influences the pattern of consumptions and pattern of decision-making of purchase behaviour considerably. Culture is passed on from one group to another and in particular is passed down from one generation to the next generation and is therefore subjective and arbitrary (See Footnote 3).[13]
  While cultural generalities are interesting and useful, it would be intimidating to make assumptions about consumers from other countries. Individuals from same culture differ more than the individuals who belong to different cultures. Generalisations are useful while approaching mass markets and are widely used when planning mass advertising campaigns (See Footnote 3).[14]
  Consumers of Generation Y is more inclined and influenced by the Western countries. Consumers have an attitude to buy a particular product being made in a specific country. Consumer's level of exposure towards foreign brands may influence their buying decisions and hence affect purchase behaviour. This becomes very critical for multinational marketers. It becomes more feasible for them if the similarity between the nations is greater.[15]
  It is challenging for the marketers to assess cultural changes, and they are likely to face issues when they try to understand, appreciate and reflect cultural values. Culture makes difference in problem identification and in recommending solutions to the problems.[16]
  The marketer needs a frame of references to understand and evaluate the range of cultural values that may be encountered throughout the process. Social relations, research, time sense, marketing activities, etc., would help the marketer to evaluate and assess the issue and understand the solution to the problem statements. Strategically understanding the difference in values and priorities is essential for the marketer to combat this issue (See Footnote 18).
- Economic factors:
  There is a growth in affluent global young adults and teenagers with good disposable income. The young generation along with their peer group spends their disposable income on luxury and shopping goods. The consumers perceive this buying behaviour as a trend to modernization and define their social class.[17,18]
  Disposable income increases the purchasing or buying power of the consumers. Facility of credit available to the consumers also increases the demand to

[13]http://www.dypatil.edu/schools/management/wp-content/uploads/2015/11/THE-IMPACT-OF-CROSS-CULTURE-ON-CONSUMER-CONSUMPTION-BEHAVIOR-A-STUDY-OF-SELECTED-DISTRICTS-OF-MAHARASHTRA-Gagandeep-Nagra.pdf.
http://ijecm.co.uk/wp-content/uploads/2016/04/4445.pdf.

[14]http://www.citeman.com/8214-cross-cultural-understanding-of-consumer-behavior.html.

[15]https://www.slideshare.net/kumaravinash23/chapter-14-cross-cultural-consumer-behavior?next_slideshow=1.

[16]https://www.tutorialspoint.com/consumer_behavior/consumer_behavior_cross_culture.htm.

[17]http://www.gktoday.in/economical-factors-affecting-buyers-behavior/.

[18]https://www.scribd.com/document/87306962/A-study-of-influence-of-consumer-s-disposable-income-on-buying-decision.

purchase. Liquid assets including cash in hand, securities, bank balance, etc., lead to buying comforts and luxuries of life apart from satisfying the basic needs of the consumer. Savings and family income of any individual lead to purchase of a bigger asset (Lakshman et al. 2017).[19]

Social status also creates patterns of decision-making of purchase. In high socio-economic status families, the tendency to make the decisions is greater among the male members of the family, and the norms of purchase tend to be well established and therefore, any discussion further is considered to be unnecessary. Lower socio-economic status families tend to be more matriarchal. The wives of the families often handle the financial decisions such as rent, grocery, food bills other miscellaneous expenses without reference to the husbands. Mid-socio-economic status families tend to show greater democratic involvement in decision-making. These social status distinctions are now gradually breaking down, as a result of increasing wealth, mass awareness and education (Adhikari and Rao 2013) (See Footnote 15).

Udell found that high-income small appliance buyers reduced visits to stores and in-store information-seeking by making purchase decisions before visiting stores and purchasing in the first store visited. Cox and Rich found that high-income shoppers did more shopping by phone than did those with lower income.[20]

In India, with demonization impacting in short negative run in the market, the small vendors and marketers have been impacted due to shortage of funds. Effect of demonetizing on these small retailers as the transaction of hard cash has resulted in lower income and is now compelling them to use either plastic money or technology for survival.[21]

Issues in the Context of Emerging and Developed Countries

In developing countries, consumers tend to be more ethnocentric in comparison with those in the developed countries. Developing countries see the products from the West, as carrying Western values that might harm their society as well as the regional labour force, whereas in developed countries, quality of the product, durability, price and other product-related aspects are the major factors that influence the buying decisions of the consumers.[22]

[19] http://businessjargons.com/economic-factors-influencing-consumer-behavior.html.

[20] Economic factors which influence consumer search for price information, Linda K Zimmermann and Loren V. Geistfeld, Vol 18, No. 1.

[21] http://www.nipfp.org.in/media/medialibrary/2016/11/WP_2016_182.pdf.

[22] https://wearedevelopment.net/2011/11/01/10-consumer-behavior-differences-between-developed-and-developing-countries/.

Akam and Muller (2013), referred developing countries, as nations that are characterized by a lower level of development compared to industrialized developed countries with respect to economy, politics and sociocultural issues. Statistically, gross national income (GNI) per capital defines the country as developed or developing. In developing countries, gross national income (GNI) per capital is currently $11,905 or less (ISI, 2015). Studies on business cycles in developing countries by Rand and Tarp (2002), noted that the output is about 20% more volatile in developing countries in comparison with industrialized nations in most of the cases. Broadly, there is an argument that developing countries have susceptibility towards consumerism and consumer protection activities which include high inflation rates and declining standards of living, and variations in the quality of products between the local stores and the products from the exports (Kaynak et al. 1992). Lysonski et al. (1996) view that there is no universal instrument that gives an accurate methodology to decide the superiority among wide domain of cultures. Hence, as we specifically explore consumption issues in developing countries, which we should be more focused on the view of this phenomenon than if we consider a more wider platform. There are a number of reasons that primary aspects of these are the population growth and the associated market potential for products. For example, numerous studies show that the young populations are approximately 70% in developing nations (UN 2009), and about 200 million Generation Y consumers are for China and 210 million for India (Durvasula and Lysonski 2008). A study by Mckinsey et al. (2010) shows that average spending on food per household in India is expected to rise from ₹ 34,552 in 2005 to ₹ 61,560 by 2025. It is not astonishing that interest levels in consumer behaviour in developing countries are growing ranging from consumption of products of fast-moving consumer goods (FMCG), luxury commodities, to several other contemporary issues in consumer behaviour.[23]

The credibility of any product is highly valued as a positive attribute by the consumers. It has been observed many a times that developing countries' value attributes more than developed countries. However, the relationship between the attributes and important factors responsible for the attributes showed differences across the markets around the globe.[24]

The consumers of the developing countries have lesser understanding of marketing concepts which have led to the use of absolute models, making the exchange process less potent. This leads to attainment of lower market response as desired resulting from intuitive judgement rather than a self-driven and deliberative process. In developing countries, given that the marketing concept does not seem to be applicable and there is scarcity of products, the relevance of brand loyalty might be

[23]http://www.igi-global.com/chapter/consumer-behaviour-in-developing-nations/154447.

[24]http://ageconsearch.umn.edu/bitstream/202722/2/173.pdf.

questioned as the connection between brand loyalty and marketing concept is yet to be understood by the consumers.[25]

Kotler and Levy (1971) further suggested that there is always a risk in overemphasizing price of a product as that would result in under-utilization of the other elements of the marketing mix which would have otherwise yielded overall superior results for the firm. A consumer has her/his small budget, and insisting on price can result in receiving a smaller quantity and inferior product. This in turn would lead the consumers to use choice tactics and hence would result in buying the cheapest brand because consumers have limited discretionary income because of inflation (See Footnote 27).

In developing countries such as India and China, it has been observed that the judgment of purchasing domestic products and conspicuous consumption (CC) by a consumer is less inclined towards ethnocentrism and willingness to buy domestic products (WBD). This hypothetically supports that the consumers judge the products on lower quality of the domestic products (WBD) or hold CC values higher resulting in the impact of ethnocentrism.[26]

It is often found that the products originated from developed countries such as Japan, Turkey and USA are perceived to be associated with very higher attributes of marketing mix such as well-known brand names, brand loyalty, technologically advanced, higher price, luxurious goods, fashionable and unique in appearance, and the products were perceived to be heavily advertised. On the other hand, products from developing countries such as Russia, China, India and Hong Kong are perceived to have some negative image of product being imitation and lower quality, to be less satisfactory in durability, reliability and service. However, some consumers also perceive that the products from Hong Kong provide a wide variety of choice of sizes and models, although the perceptions were not as strong as in products from Japan, Turkey and USA.[27]

Recommendations

- Constant changes and modifications in the existing products, marketing mix, promotional activities and other marketing strategies to appeal the market culture.
- Positioning the product or services in the market in such a manner that would influence the decision of purchasing by the consumers of any target group.

[25]file:///C:/Users/Rima/Downloads/Bbenkele%20(1986)%2020Understanding%20Consumer%20Behaviour%20in%20the%20Less%20Developed%20Countries%2020An%20Empirical%20Investigation%20of%20Brand%20Loyalty%20in%20Zambia.pdf.

[26]http://www.emeraldinsight.com/doi/abs/10.1108/07363760410558663.

[27]Consumer Ethnocentrism and Lifestyle Orientations in an Emerging Market Economy, Erdener Kaynak and Ali Kara.

- Global marketing–standard marketing of a product or service essentially in a similar way everywhere in the world.
- Strategic changes to be developed to influence the culture directly.
- Marketers must learn and adapt everything that is relevant to the use of their products across the globe.
- Value propositions and sale promotions are easily perceived by the target audiences to increase sales and increase return on investments.
- Products should be manufactured, packaged and positioned in the market in the similar way globally.
- Effective use of cashless transactions would help in increasing the economy in near future which would help in increasing return on investments (ROI).
- Strategically, the purchase behaviour of the consumers can be influenced if the services can be provided at the consumer’s home or if the products can be available on mobile vans.
- Extensive integrated marketing communications using various channels of communications, social media, sales campaigns, etc., should be done to strategise the profitability of the company.
- Marketers should focus on making the consumers decide based on explicit assumptions, research and sound knowledge about the product or service rather than the decisions which are based on intuitions.
- Strategically, the marketers should make the consumers aware and help in increasing knowledge about their products or services which would have a competitive advantage and greatly reduce market failures.
- Actively participating in social marketing would also help the companies to understand the consumers need and expectations about the product or service and in turn can strategically position their product into the market.

Conclusion

Human beings are deeply same and obviously different. Strategic marketing plays a vital role in proving this concept. Strategic marketing seeks to provide the consumers more than what the competition is providing while being profitable to the company. Strategic marketing is devised in terms of marketing mix involving products features, value propositions, price, integrated marketing communications, sales and distribution management and services that would provide the consumers superior value than the competitors in the market.

Strategic marketing should be focussed not only on the five senses of the consumers (touch, smell, taste, sight and hear) but also on the sense of direction, sense of balance and an accurate knowledge of the product and the market. Strategic marketing should target the brain of the consumers.

Strategic marketing leads many firms to wrap the experiences around the traditional products and or services in order to increase sales. Small vendors and retailers are moving to lifestyle centres and malls which would have better target population for their products.

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Chapter 3
Customer Relationship Management in Emerging Markets

Bhanu Prakash Nunna

Abstract This chapter gives different perspectives of both rural and urban marketing strategies providing an overview of how customers' perception of 'value proposition' has changed and how companies have transformed their relationship management with customers with the changing demand. It provides an overview of various contemporary issues in CRM such as missing key information, out-of-date information, inability of firms without proper customer insights, and the privacy concerns with respect to customer data, also provides insight into new technology trends in CRM industry such as applying artificial intelligence (AI), Bots, IoT, and finally discusses proposed approaches for implementing these modern technologies/frameworks for firms to get better understanding of customers to help building strong relationships with them.

Introduction

Customer relationship management is going to play a significant role in marketing any product looking at current trends in any business. Customers are more intelligent, diligent, and tech savvy while choosing any product for purchase. This consumer behavior also increased the expectation of the firms on how they interact with their customers, but also to be in constant touch with them in order to deliver '*More Value for Money*'. There are new ways in which CRM solutions are being delivered including CRMs adopting to social networking platform, solutions with automation of business processes, using a large amount of customer analytics data, and also expanding to mobile solutions.

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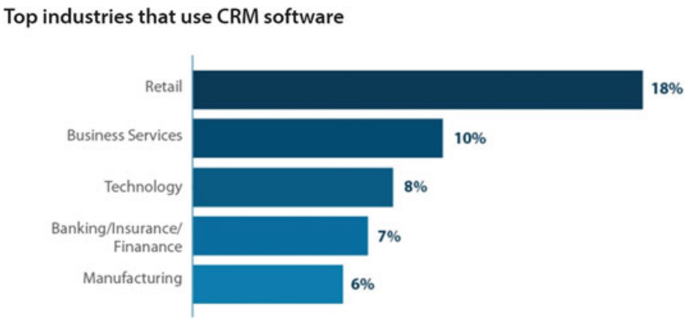
A. Adhikari (ed.), *Strategic Marketing Issues in Emerging Markets*,
https://doi.org/10.1007/978-981-10-6505-7_3



Graph Source[1]

B2C firms are the majority who implement CRM solutions. Approximately, 60% of the firms from B2C use CRM. Marketing departments are the second most consumers of CRM solutions. In the entire org, marketing department consumes 45% of CRM solutions in order to understand consumers. When compared with CRM implementations in emerging markets, below is the list of top 10 CRM systems in India:

The top 10 CRM systems in India include:

1. CRM On Demand from Oracle
2. CRM solution from SAP
3. CRM from Microsoft
4. Sales force
5. CRM from Sage
6. CRM from CDC Software
7. CRM from Talisma
8. Amdocs
9. CRM from Sugar
10. CRM from Impel

In APAC region, after China, India is considered the second largest market for CRM implementations with projected growth of CAGR 16–19%. This is the right time to implement right strategy along with best possible CRM solutions in order to build trust, confidence, and loyalty with the customers to improve customer satisfaction, thereby increasing demand and profit margins to the firms. Since emerging markets are where the new customers are, it makes perfect sense to come up with proper CRM strategy that works for individual business entities.

Contemporary Issues in Marketing w.r.t CRM

Customer relationship marketing has some traditional issues which we will need to address either in emerging markets or in developed markets. Some key aspects of CRM which will need to be considered include switching, satisfaction, trust, commitment, and loyalty. The initial interaction with the customer is the key to winning a customer and allowing him to switch to new product offering. Customer satisfaction is another aspect to retaining customers both existing and loyal, keeping in mind all existing customers may or may not be loyal. Building trust with the customers is a major milestone in CRM; once attained will create emotional connection with them. Gaining commitment to a certain product or brand is a big milestone because once achieved these customers will not only use the product in their lifetime but also pass it on to their next generations to come. Loyal customers are very important for any product as they provide both +ve and −ve critic on the quality of the product but also the experience as well. The most common problems with effective and efficient use of customer analytics data are *Key Customer data is missed out, Data is not up-to-date, Data not being verified, No proper Data Insight, Inability for finding new Leads.* Especially in emerging markets like India, I feel CRM is considered more on a 'Yes-We Do' kind of mode rather than playing a significant role in understanding customer needs, wants, and patterns on consumer behavior. Specially to launch a marketing campaign, firms in emerging markets need to do lot of research on understanding the trends and have to gain insights into the existing CRM data so that they can segment the target customers accordingly. We will delve more into these contemporary issues with CRM here:

1. Missing Key Information

Collecting data related to CRM is a crucial step toward understanding firm's customers. What kind of data is stored and how well it is maintained so that important information relating to trends is not missed out. Unlike earlier days, relying on basic demographic information like age, gender, location, and the history of purchases is not sufficient enough to understand customers and it will not help firms to build trust and relationship connects with customers. Most of the times, the key information for a particular firm apart from demographic information is missed out.

2. Out-of-Data Information

Maintaining up-to-date information about customers is not only critical to maintain continuous connect with customers but also to understand if they have changed their consumer behavior, purchasing patterns, change in brand that they wish to use, change in their financial position, change in their social status, and change in customer contact information. This is very crucial because without maintaining correct information, firms will not have critical data to segment their target customers, understand who their loyal customers are, and then to build marketing campaigns which will attract their customers.

3. Unverified Data

For successfully delivering marketing campaigns, the first step that customers need to look at is to ensure the information pertaining to target customers is up-to-date and correct. This data needs to be validated before the campaign launches so that target customers can be reached as planned. Verification of customer data should be an ongoing process, say once in every quarter so that firms can maintain healthy customer information. This will not only build trust with customers, but also have direct customer connect and regular touch so that firms can understand their changing needs and deliver great value with their products. Also, customers will have ongoing connects with the firms.

4. No Proper Insight

Once customer data is accurate, the next biggest challenge for firms is to derive customer insights from this data. Most of the firms are still trying to mine customer data in order to understand their customers. Some of the firms do not even know what to mine for, and other challenge is firms often do not map the customer insights with firm's vision if there is any match. This mapping needs to be done in order to reach target customers to whom the firms can deliver more value. Once firms gain proper insights, trends, and patterns, they can come up with or derive some conclusions based on which the firms can either continue their strategy or change direction as needed. Also, the marketing campaigns can be built on top of these conclusions and next set of action items can be determined. This mapping also unlocks some of the non-customers who can become potential customers and may be help the firms adopt Blue Ocean Strategy to come up with new direction.

5. Inability to Find New Prospects

CRM data can help identify existing customers, understand them, and keep constant touch with them. Firms can target specific customers who are existing and related to specific campaigns but also apply some advanced tools in order derive proper insights. With CRM, maybe firms need to identify new prospects but there is possibility to identify non-customers and their needs. Maybe with this data, firms can look for different avenues with which they can promote custom campaigns targeting non-customers in case there is more potential growth and its untapped by current market. Sometimes, firms unlock interesting trends with CRM data which will help firms change their marketing efforts to tap into loyal customers.

6. Privacy Issues

In emerging markets, privacy concerns are mostly effecting the firms to implement CRM solutions to deeper pockets in the market. This could be because the customers do not trust these firms on storing customer data securely and not transparent enough to educate customers on with whom they will or will not share this CRM information and also the ability of customers to allow or disallow firms to either share or not share this information to other organizations. Privacy is a bigger beast in the emerging economies because of the way these markets operate, share, and secure the CRM data. Firms can be more transparent and diligent to educate their consumers or customers on how, why, and what they do with this data.

New Trends in Industry in CRM

Artificial Intelligence

Sales Force's AI solution named Einstein AI is specifically focused with CRM as its main focus. They wanted to make AI as mainstream and part of daily life. They are built in such a way that they are automatically customized for each and every customer. Also with every interaction with customer, the data gets built up and the machine learning models continue to learn about every customer and their needs. As part of this, marketing department will be powered by Marketing Cloud Einstein's power tools such as Predictive Scoring, Predictive Audiences, Automated Send-Time Optimization.

The other booming trend in artificial intelligence is through social CRM solutions. Lots of data are available on social sites like Facebook, Twitter, Instagram, and CRM firms have more source that are publicly available than never before. Eventually, there is Big Data everywhere and people just need to mine this data and identify trends suitable for their products. Mining this huge level of petabytes of data cannot be humanly possible through current solutions, so firms are moving toward machine learning, deep learning systems and build models which will empower them with artificial intelligence.

In developed nations, AI is being used extensively to understand customers. For example, when a user searches for a keyword say, 'Diamond Necklace' in Google, this search is being recorded for the user and relevant ads are being served in mail account such as mail.yahoo.com and in other Web sites. Firms are trying to understand consumer behavior and also suggesting related products similar to www.amazon.com's Web site feature such as 'People who searched for "Nikon cameras" also looked at below products'. This kind of artificial intelligence helps customers with not only alternate options but also gives them more broader perspective on other similar products.

Evolution of Bots

Bots also known as Internet Robots can play a major role in CRM solutions. Usually, there is always shortage of sales people in current business scenarios and firms are looking at more automated ways to reach out to each customer to make it more of a personal experience. To accomplish this, firms cannot recruit large amount of sales people, and hence, CRM Bots can be used heavily to bring in the personalized experience. This will not only improve the CRM workflow but also increases customer satisfaction. Some scenarios could be to help firms provide call suggestions, scheduling meetings, and set intelligent reminders for follow-up emails to prospects and leads. Shopify, for example, has implemented a compelling Bot scenario and built product called Kit CRM, which has a Chatbot which sends marketing text messages for online stores, and this could possibly mean that these kind of Bots can drive customer engagement through these kind of solutions. There are lots of other scenarios where Bots can help accomplish to enhance customer experience and also firms can be successful with their vision. Some examples include using Chatbot to setup appointments for doctors, beauty salons, government services, etc.

Bots are being extensively used in many industries including real estate, e-commerce, B2B solutions. Web sites such as windermere.com have Chatbots which will pose relevant questions and then connect the customer with relevant real estate broker to take it forward. Other industries such as healthcare include products such as Babylon Health, sense.ly, which take customer satisfaction to a new level in healthcare industry.

Digital Transformation Through IoT

IoT, which is Internet of Things, is becoming a new frontier for CRM. Ideally, CRM means managing relationship between the firm that is offering products and services and its customers. Mobile, social networking, Internet, and online space are becoming core of all things business. Customers are preferring more personalized messages, service offerings, products especially in devices which suit their needs and wants. Internet of Things are becoming more relevant in these times than ever before. Digitization of value stream enables firm to hear each and every customer's voice and respond to their needs and deliver great personal experience. Digitized decision making, optimized user experiences, and delivering more value to customers can be achieved using IoT solutions. For example, understanding sportsmen's requirement by enabling chest-based IoT solution by Nike has helped the firm to understand more about these soccer players and hence developed their apparel, shoes based on these learning. Smart Phones, Devices and IoT based devices are becoming new channels for digital marketing, upselling or cross selling of goods and services, Kiosks which are connected to devices, location based solutions, connected vehicles, interactive retail goods for example Zune Oven which is a Microwave Oven which is smart enough to cook whatever food you place inside this Smart Oven empowered by Internet connectivity.

Proposed Approach

What Is Currently Working?

CRM solutions are becoming the central part of every business firm. Existing CRM solutions are able to deliver what is minimum required for firms so that they can get started with knowing basic information about customers. Current CRM solutions are able to manage existing customers using call center solutions, identifying prospects, identifying leads and follow-up with the customers. Apart from this, regular sync up with customers on a quarterly basis, to know customer's requirements etc. But in order to meet future demands of the millennials, firms need to be more smart, efficient, and elegant in their solutions in order to build trust and long-term relationship with customers to convert them to loyal customers. Customer satisfaction, loyalty, and commitment are the key aspects for any CRM solutions to be addressed. What we have seen in emerging markets is customer relationship is being misused and wrongly approached. For example, a banking firm approaches new customers with all offerings, and once the lead becomes a customer, then banks will not return a courtesy call for thanking them for being their customer. Instead, they spam the customer with all unnecessary offerings which frustrates the new customer and creates bad impression. This should not be the case. Banks should study the customer background and get in touch with him on a quarterly basis to check everything is ok or if something needs to be addressed and fix it. This builds not only on customer satisfaction but also improves the overall experience with the bank. To do this, firms need to perform some analytics, understand the needs of the customer, and assist him accordingly. For example, not all firms have digital information regarding their customers as they might be using traditional methodologies (bookkeeping either updated or not updated or old information which may not be relevant) to manage their customers. This becomes a big challenge in order to implement CRM solutions. As per the Journal of Global Business and Technology, Volume 1, Number 2, Fall 2005, CRM implementation had to be thoroughly reviewed before going ahead because if there is no loyalty with the customers and there is more churn, it would be difficult and may not add value in those business to implement CRM. In industries where there is need for customization, differentiation, CRM will be a great tool to implement in such firms such as financial organizations, automotive industries, FMCG.

Proposed Solution

As the CRM framework suggests, the top five aspects of customer relationship management had to be taken care of. These include switching, satisfaction, trust, commitment, and loyalty. These are the most important factors which should be addressed with whatever be the CRM solution one adopts. Once these aspects are considered and planned for, then most of the CRM solutions will help firms to improve their relationship with customers thereby increasing their market share and profitability.

Step1: Firms Need to Adopt Bot Solution in Order to Create Personalized Solutions

As discussed above, firms need to create Bots which will fit into the existing CRM workflow where required so that customers will have great experience and also offer personalized solutions. Bots can also reach customers when they are in need rather than firms get in touch with them when the firms want to get some information. So Bots enable 'Pull' model of implementation and increase customer satisfaction. For example, recently I had to order service appointment for my Stayfit cross-trainer and I could not get the phone number required to call them. So I went to their Web site and the Bot asked for few details and placed a service appointment for me and the actual person called me to find out best suitable time in order to get my servicing done. This is a great example of Bot-enabled CRM solutions.

Step2: Create Big Data of Customers

These days there is wealth of data available, and lots of digitized data can be generated using different devices, smartphones, IoT solutions, Bots, etc. This data will help firms to build their own Big Data related to their customers. This data is very useful to understand firm's customers and then identify patterns within them.

Step3: Mining Big Data

Once firms build Big Data, they can actually perform data mining, deep learning of this huge data. Post which firms can start building models which will be leveraged by artificial intelligent systems, machine learning algorithms etc., to come up with trends, identify customers who are loyal and also predict future potential customers.

Step4: Implementing AI-Based Solutions to Reap the Benefit

Finally, firms will need to start looking at smart solutions which are machine- and algorithmic-driven that are based on generic mathematical models built from these

Big Data sources. Once implemented, firms can continuously adopt and evolve these models so that they are tuned to accomplish firm's vision thereby generating loyal customers and also converting non-customers to customers using AI-based solutions. AI also allows firms to create personalized experiences thereby improving customer satisfaction and firm's revenue and sales as well.

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Chapter 4
The Neo-Middle Class: A Unique Opportunity for a Marketer

Kalpit Shah and Atanu Adhikari

Abstract Most marketers in the world have been busy targeting the population with low income, middle income or the high income. What they miss out is the fact that the lines between these segments are blurring. This phenomenon is more evident in the emerging markets. The population here is aspirational and wants to move up the economic ladder. There is a segment of people who are between the low-income level–mid-income level and mid-income level–high-income level. This we define as **the neo-middle class**. They are ready to pay a premium for a product or a service, but they are confused whether the product or a service is worth the premium. If positioned well, this segment of population can provide ample opportunities. The chapter gives an overview of the characteristics of the individuals in the neo-middle class, and as a marketer what kind of strategy should be employed. The chapter also provides an example of an Indian brand (Patanjali) which targeted the neo-middle class and has made use of this unique opportunity in the market.

Introduction

Every country provides ample opportunity for a marketer to target and position based on the demography of the region and behavior of its people. People and their perceptions are the crux for any marketer and any decision to target and position a product or service for a section of population should generate revenue and brand value. In a developed economy, the demarcation line between the poor, the middle class, and the rich is distinctly visible. The purchasing power of these economies is stable. Hence, it is relatively easier for a marketer to position and sell a product or a service.

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A. Adhikari (ed.), *Strategic Marketing Issues in Emerging Markets*,
https://doi.org/10.1007/978-981-10-6505-7_4

However, it is a different game altogether in an emerging economy. The demarcation lines run across all the different section of the society. The gap between purchasing powers of different sections of the society is shrinking, and these economies are growing at a much rapid pace than the developed ones. This according to me is a tremendous opportunity for any marketer.

The unique characteristics of emerging economies also pose a challenge in the way organizations target and position their product or service. There is a neo-middle class that is emerging in these markets who are

1. aspirational and
2. confused

They are ready to pay a premium for a product or a service, but they are confused whether the product or a service is worth the premium. If positioned well, this segment of population can provide ample opportunities.

Fight at the Middle of the Pyramid

Bottom of the pyramid is the phrase used to refer to the section of the society who belongs to the poorest socioeconomic group (lowest income levels). *CK Prahlad* and *Stuart Hurt* in their article "*Fortune at the Bottom of the Pyramid*" describe —"low-income markets present a prodigious opportunity for the world's wealthiest companies—to seek their fortunes and bring prosperity to the aspiring poor." The authors' point at the 4 billion population at the bottom of the economic pyramid (Fig. 4.1) who provide immense opportunity for the MNC's.

In the emerging economies like India and Brazil (to name a few), the fight is at the middle of the pyramid. The demarcation lines between the sections are blurring (Fig. 4.2). There is a significant population

1. Concentrated between the line separating the bottom and the middle of the pyramid; people who are aspirational and trying to move up the economic pyramid.
2. Concentrated between the line separating the middle and the top of the pyramid.

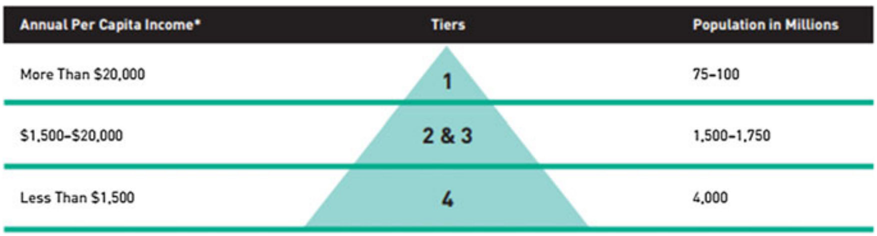


Fig. 4.1 Economic pyramid. *Based on the purchasing power parity in US $. *Source* United Nations World Development Reports

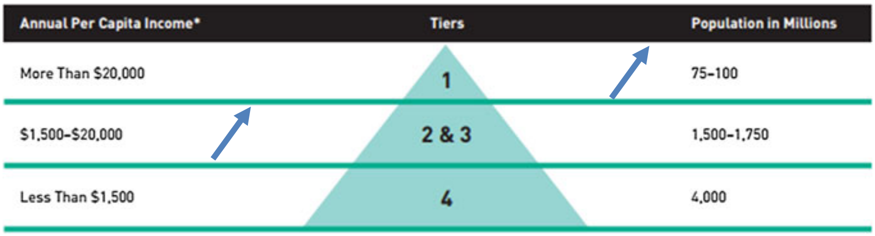


Fig. 4.2 Economic pyramid in emerging economies. *Based on the purchasing power parity in US $. *Source* United Nations World Development Reports

There is a common thread that connects these two sections—both these sections are aspirational and trying to move up the economic pyramid. This for me is **the neo-middle class**.

This chapter explores different strategies a marketer can employ to tap into this unique market (the neo-middle class) of an emerging economy.

Behavioral Aspects of the Neo-Middle Class

How do the consumers of the neo-middle class behave? What are their characteristics? To understand this, let's look at the **status signaling** (Fig. 4.3) **grid**. This grid classifies consumers into four different categories.

1. A **Patrician**—has wealth but has a low urge for status signaling. They use quite signals to signal their status.
2. A **Proletarian**—does not have wealth and has no urge to signal status.
3. A **Parvenu**—has wealth and high urge to signal status. They disassociate from the have-nots and use loud signals.
4. A **Poseur**—does not have too much wealth but have a high urge to signal status.

Poseur is the ones we are interested in. They are typically the "neo" middle class who are aspirational and confused. Consumers are ready to pay slightly more for an aspirational product.

Poseur is competitive, and they have a high self-esteem (Fig. 4.4). They buy products to personify themselves.

Let us analyze how the Poseur associates themselves.

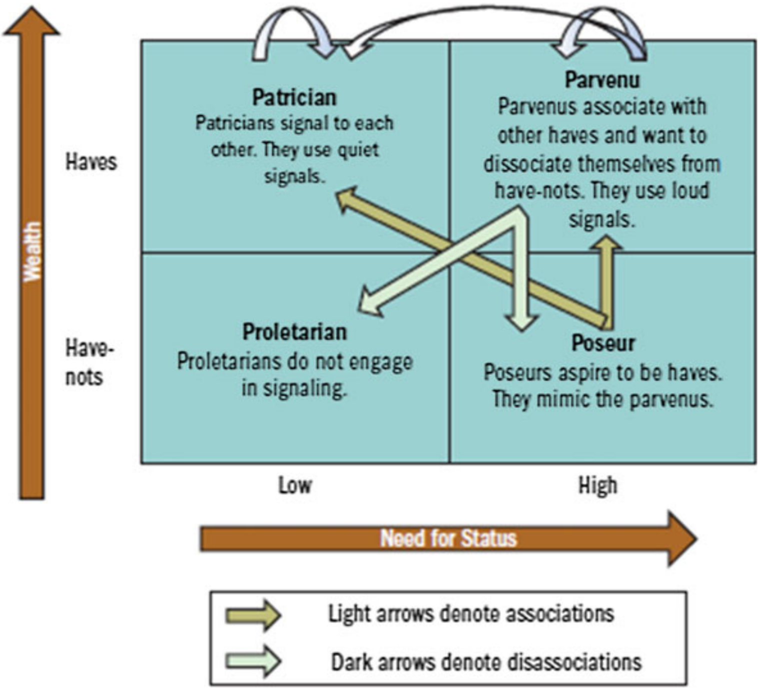


Fig. 4.3 Status signaling. *Source* Han et al. (2010) used to define customer segmentation

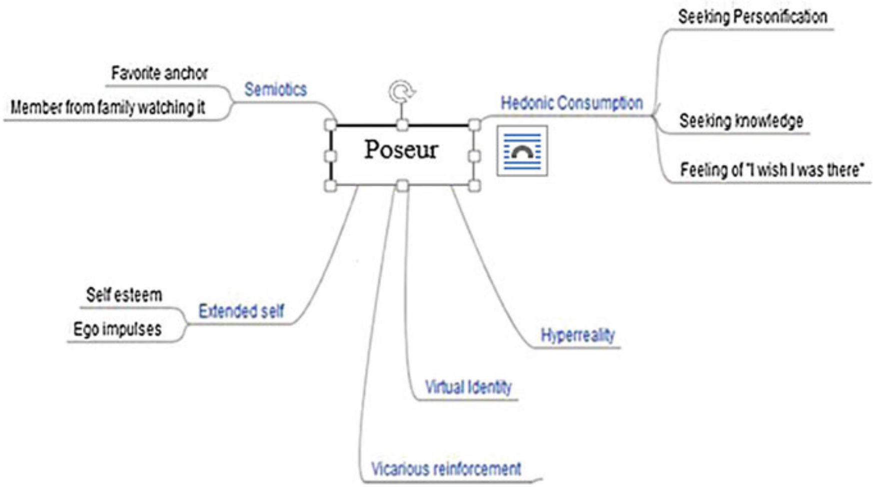
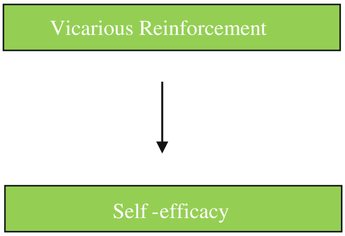


Fig. 4.4 Association network of the neo-middle class. *Source* Prepared by authors

Vicarious Reinforcement



Source Prepared by authors

Many individuals buy products because they must signal their status in the society they live in. It is very prevalent especially in the developing economies. Consumers buy products because others in that segment of society have bought a product.

For example, Roadies—reality TV show in India. Many youngsters watch it because their friends from school and university watch it. This is a kind of vicarious reinforcement. It is social persuasion.

Vicarious reinforcement induces self-efficacy. When people are persuaded by others that they can succeed, this positively impacts their self-efficacy.

Foote Cone Belding (FCB) Matrix

Consumers in the neo-middle class also buy products to fulfill their **self-esteem and ego-related impulses**. Hence, they follow the path of Feel→Learn→Do.

At the same time, they satisfy "**life's little pleasures.**" Hence, they also follow the path of Do→Feel→Learn (Fig. 4.5).

Hedonic Consumption

Consumers are in search for products that can satisfy their emotional wants.

"Personification" is one among them. A Hidesign (leather brand in India) bag is considered by many consumers to be an **extension of one's self**. It personifies an individual. Consumers enjoy sensory experiences, and they seek pleasure when they experience it.

In an emerging economy, consumers are ready to pay a premium for a Hidesign leather bag because it is aspirational and enables individuals to signal status (a Poseur characteristic of the middle class).

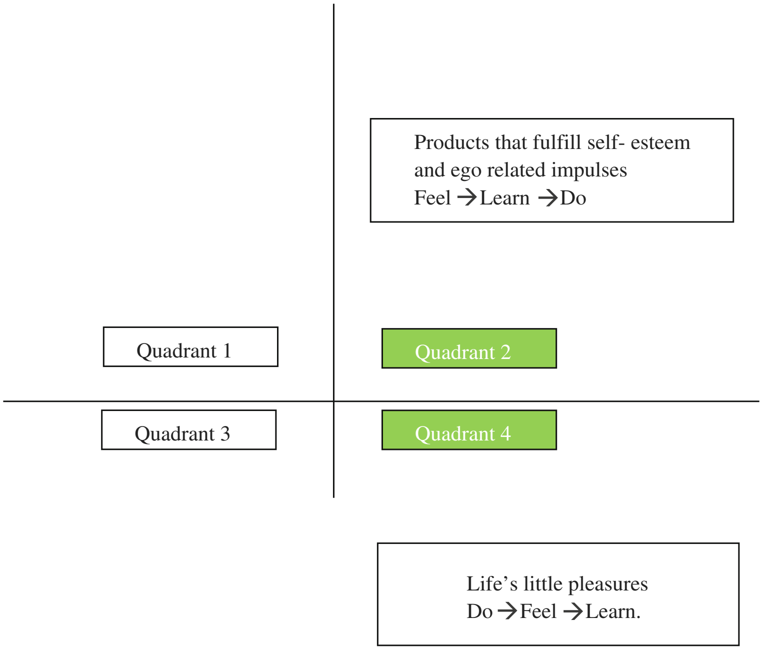


Fig. 4.5 FCB matrix of the neo-middle class. *Source* Prepared by authors

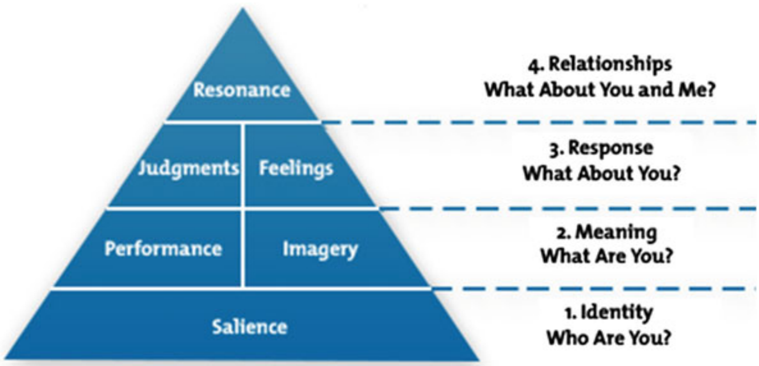


Fig. 4.6 Keller's brand equity model

Marketing Strategy for the Neo-Middle Class

By now we are aware of the opportunities that the neo-middle class offers and their characteristics. The next question is how does one devise a marketing strategy? To understand this, we can look at the Keller's brand equity model (Fig. 4.6).

The left side of the pyramid focuses on product features and attributes (e.g., performance), whereas the right side of the pyramid focuses on the emotional aspect (e.g., made in India for India) of the product.

In an emerging economy where consumers are aspirational and have all the characteristics of a poseur, focusing on the right side of the pyramid seems the right thing to do. The primary focus needs to be on the emotional aspects with a minimal focus on the product features and attributes.

Case Study—Patanjali

Let us take an example of an organization in India—Patanjali. The company started its operations by manufacturing ayurvedic medicines and other related products. Today, they are poised to overtake the likes of Nestle and Unilever in the FMCG segment. They have diversified into the depth and breadth of FMCG. They sell everything from noodles to a detergent to a hair oil. They are poised to become a 1 billion USD company.

What are the strategies they employ? How are they able to get the shelf place? The answer lies in what I explained in the beginning of the chapter.

They have targeted the **Poseurs** who are consumers who buy products that personify themselves. The products of Patanjali are positioned as “swadeshi” (made in India for India)—the one who fights against the “evils” of foreign products (Nestle and Unilever).

Consumers who buy Patanjali products are considered as contributing to the Indian culture. This personifies an Indian consumer. Buying Patanjali products satisfies **self-esteem and ego-related impulses** (Feel→Learn→Do).

A segment of consumers who buy Patanjali products influences other segments. Consumers buy products because others in that segment of society have bought a product (vicarious reinforcement).

Patanjali’s marketing strategy has been around the right side of the Keller’s equity pyramid. They resonate the emotional aspect of the brand—“Buy Indian and be Indian.”

A good understanding of the behavioral aspects of the customer and the right marketing approach has made Patanjali a serious player in Indian FMCG segment.

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Part II
Marketing Tactics

Chapter 5
Distribution Challenges in Emerging Markets: Evaluating Alternate Distribution Strategies for FMCG Firms in Rural India

Rajesh K. Aithal, Satyam and Harshit Maurya

Abstract This chapter explores the distribution challenges in Indian rural market and evaluates the various strategies to approach rural markets. Reaching out to rural markets has been acknowledged as the biggest challenge. This chapter discusses various strategies used by firms to reach out to rural India. A set of six strategies of distribution in rural India has been identified. Major fast-moving consumer goods (FMCG) firms which have serious interests in rural markets have been using these strategies. The pros and cons of each distribution strategy have been elaborated. The critical discussion of these six distribution strategies and future recommendations is expected to enhance the understanding of marketers so that they can plan better for reaching to rural India.

Keywords Distribution strategies · Rural markets · Retailing · India
FMCG · Emerging markets

Introduction

Emerging markets, which account for 65% of the world's population, 40% of the world's economic output, are expected to grow three times faster than developed economies (Narasimhan et al. 2015). Many multinational firms, attracted towards emerging markets, have met with limited success in these markets (Dawar and Chattopadhyay 2002; Khanna and Palepu 1997), and the complexity of distribution channel is one of the reasons for their limited success (Kumar et al. 2015).

India, with around 17% of the world population, presents an enormous opportunity, and companies are stepping up efforts to unlock this opportunity. And within

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A. Adhikari (ed.), *Strategic Marketing Issues in Emerging Markets*,
https://doi.org/10.1007/978-981-10-6505-7_5

India, the most challenging part is the rural areas which are seen both as an opportunity and a challenge. The opportunity is based on the sheer population which resides in around 636,000 villages in India, and the challenge stems from the fact that reaching out to the consumers in these villages spread across the geography of the country. These villages are inhabited by about 850 million consumers making up for about 70% of the population and contributing around half of the country's gross domestic product (GDP).

Rise in rural prosperity across emerging markets is attracting more and more marketing companies. But, companies met with limited success because of inadequate distribution networks, partners with limited capabilities and long payment cycles. As reaching out to the rural markets in India, it is very expensive so the first step for any company is to design cost-effective distribution strategy to penetrate these markets. Moreover, firms face the challenge of replenishing products reliably and consistently. Inadequate transportation infrastructure, lack of warehousing facilities, widely dispersed consumers and limited local distribution channels were identified as some of the key external barriers to expand in rural markets (Satyam and Aithal 2017). Even the best conventional distribution systems have been unable to penetrate beyond about one-sixth of India's rural villages (Mahajan and Banga 2006). And to reach out to these markets, there is a need to develop innovative rural distribution models (Kashyap 2012a).

The attempt of this chapter is to document the various distribution strategies that FMCG companies have taken to reach out to these markets. Six distribution strategies, adopted by FMCG majors, have been identified, and a set of pros and cons of each of these approaches have also been identified. It is expected that this effort will help to understand the various strategies which can be used to distribute in rural markets across emerging economies and eventually lead to more efficient and innovative ways of doing the same in the future. The consumer population in an emerging market is dispersed over a wide geographic area, and transportation infrastructure, warehousing infrastructure, etc., are poorly developed. A critical analysis of distribution strategies in emerging markets is also required owing to the different distribution structure. The objective is to enhance the current understanding of academicians and practitioners and provide them a critical analysis of existing distribution strategies along with recommendations for future.

FMCG Business in Rural India: Opportunities and Challenges

It is expected that rural India will become the next growth engine, and they cannot be ignored (Kashyap 2012b). Manwani (2012) says by 2025; the Indian rural market is expected to grow more than tenfold to become a USD100 billion opportunity for retail spending. Urban demand across the world has been sluggish, and rural markets are growing faster than ever in some of the largest emerging economies. This phenomenon is evident in India as well where spending by 800+ million rural residents reached $69 billion, some 25% more than their urban counterparts spent over the same period (Kapur et al. 2014).

Rural India accounts for more than 35% of the total FMCG market. Total rural income which is currently around USD 572 billion is projected to reach USD 1.8 trillion by FY2021. India's rural per capita disposable income is estimated to increase at a CAGR of 4.4% to USD 631 by 2020. The share of non-food expenditure in rural India is also increasing with the rise in income levels (Fig. 5.1).

Rural markets offer the highest growth opportunity in the Indian FMCG industry (Fig. 5.2). More than 80% of the FMCG products posted higher growth in rural markets as compared to urban ones. They also stand to gain from the contribution of better logistics and distribution. The government's focus on rural markets is also encouraging many FMCG companies to expand their rural distribution network and increase product penetration. Rural consumption is one of the most important growth drivers of FMCG industry in India. Rural consumption has increased led by a combination of increasing incomes and higher aspiration levels; there is increased demand for branded products in rural India.

There are certain key external barriers to expanding in rural markets:

1. Inadequate infrastructure (e.g. roads, power, telecom);
2. Limited local distribution channel;
3. Lack of granular information on rural markets;
4. Inadequate access to financing;
5. Cultural and language barriers;
6. Lack of adequate warehousing facility.

Further on an attempt is made at mapping out the various distribution strategies which have been adopted by various firms to reach out to these markets, and they have been classified into two groups, traditional and emerging, with four strategies

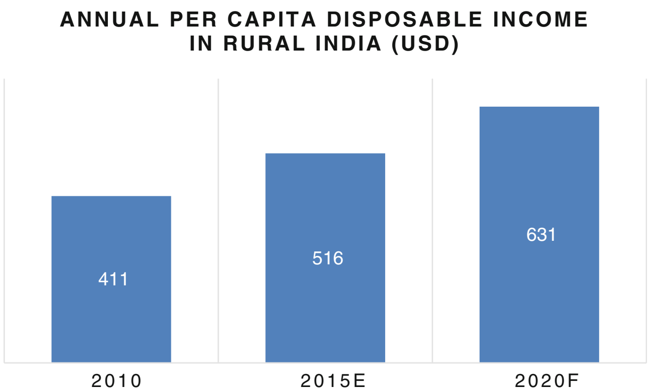

Fig. 5.1 Per capita disposable income in rural India. *Source* https://www.ibef.org/download/FMCG-June-2017.pdf

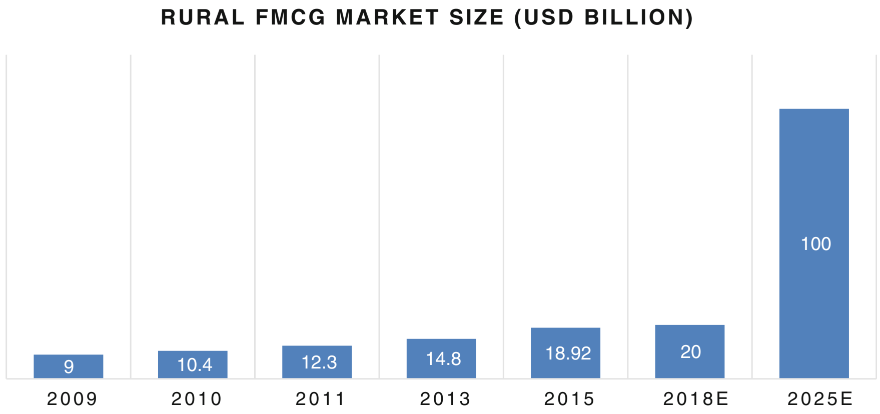

Fig. 5.2 Indian rural FMCG market size. *Source* http://www.ibef.org/industry/indian-rural-market.aspx

described in the first group and two in the later. Each strategy is elaborated with the examples of companies which have either used it earlier or are currently using it. Towards the end, an attempt has been made to compare each of the approaches and come up with recommendations for firms wanting to access rural markets.

Distribution Strategies in Rural India

This section elaborates the various strategies which have been adopted by various companies. Six strategies to reach rural markets have been identified.

Van-Based Model

Van-based model, this the oldest model of reaching out to rural markets. Here the stocks are all loaded in a van, and the van travels to villages and the salesman who accompanies the van takes orders from the small retailers in the village. The stocks are delivered immediately, and then the van moves to the next village after servicing the shops in that village. Some companies also use the vans as a means of communication also. The recent modification of this model has been the use of two-wheelers in the place of vans to reach to villages. Colgate India pioneered this model to sell their toothpaste in villages, and today ITC is also using vans to cover some of their rural markets.

The disadvantage of the model stems from the fact that it can become a very expensive model to sustain, and the amount of business from each visit at times would not cover even the transportation expenses. Though historically it was a very popular means of reaching out to rural markets, today very few firms use it to reach out to rural markets.

Urban Extension Model

The second model is used as the traditional distribution model (urban extension), where the companies use their urban models and add a separate distributor for rural markets. The typical working of the model remains very similar to their urban counterparts. This tends to be subsidy-driven models where the firm has to compensate the distributor for the additional expense of servicing the markets. This model is also very popular with companies like HUL and Dabur India using it to reach to rural India. This has met with limited success as the markets tend to very diverse in nature and the model which works in one part of the country does not work in the other part. The only hope is that with rapidly improving infrastructure the expenses of reaching out to these markets might go down making this mode of distribution more viable. One of the key challenges of this distribution strategy is the difficulty associated with controlling the flow of products from rural to urban markets. This becomes more apparent in companies which pay a differential margin for their distributors based in rural areas.

Wholesaler-Driven Model

The third model is the wholesaler-driven model. In this model, the company reaches out to various wholesalers based out smaller town markets where the rural retailers buy the products they sell. And these wholesalers are mostly located in the small town which has a better accessibility than the villages, and for many companies reaching out to these wholesalers could be a better strategy than trying to reach out to the villages directly. But this reach will come at the cost of loss of channel control, because the wholesalers may be able to sell to rural retailers, but they might do it on their term.

There are many advocates of this model, as Kashyap (2012a) says that six lakh villages in the country need not be reached directly, they could be reached by servicing only about 13% or only 84,000 villages, and it is in these villages where the most affluent of the rural population stays. Aithal (2012), in his study of rural retailers, found that 70% of them regularly bought from the wholesaler in the nearest small town.

This model is also many times not by choice or design but because of the demand for the products in rural markets. And this can be a viable model for many firms which are not willing or capable of investing in setting up channels of their own to reach the rural markets. For many smaller firms, it has become a default option for distribution as this tends to be the least expensive way of expanding.

Procter and Gamble have consciously taken the wholesaler-driven model to distribute into rural India.

Hub-and-Spoke Model

The fourth model is the hub-and-spoke model, which has gained popularity in the recent years. Here the company sets up a set of hub-and-spokes in the rural markets that they would want to serve. The Hubs tend to be directly serviced by the company and the hub services the spoke which in turn services the nearby 8–10 villages. Normally, the hubs would be located either in the nearest small town or a bigger village. This model has the advantage of spreading the cost of servicing the far-flung villages easier. This model is also called the super-stockiest model of distribution. HUL has experimented with this model with limited success. Coca-Cola India has executed this strategy with fair amount of success.

One of the challenges which companies have to face is in the execution of the model wherein the spoke may not be willing to travel and service the rural retailers as envisaged in the design. And if the retailers themselves have to travel to the spoke to buy, then it becomes the wholesaler-driven model because the spoke starts acting as a wholesaler. These four models described above were the older traditional ones. Next two are the models which have been experimented are the merging ones starting with the entrepreneur-based model.

Entrepreneur-Based Model

The entrepreneur-based model is the new addition to this list of options which firms would have when they plan to access rural markets. In the entrepreneur-based model, the companies start by setting up entrepreneurs in a village who in turn acts as a distributor for the firm for the village that he or she is based out of and some nearby villages. Once set-up this channel can be long-term advantage for the firm wanting to access these markets. The most documented and spoken about are the Shakti entrepreneurs' model pioneered by Hindustan Unilever Limited for distributing their products in far-flung rural areas of the country. The strategy consists of using a radically decentralized, door-to-door sales force for selling personal care products, such as soaps, lotions, and detergent, with sales force drawn from members of thousands of small women's savings and loans groups (also known as "self-help groups") (Simanis and Hart 2009).

The model has been tweaked and adopted by Colgate India. They have hired local youth from different sources including Nehru Yuva Kendra Sangathan as their last mile channel partners (Mathew and Mookerjee 2008). The youth is linked to the nearest company stockist and buys stock on cash and sells them to a cluster of 20–30 villages within a ten-kilometre radius carrying stocks on their bicycles.

The drawback of this model is that this tends to a very slow to expand and needs to be customized according to local conditions. This also has the issue of scalability which constraints rapid expansion, which is because of the handholding which many of these entrepreneurs need in the initial years.

Collaborative Distribution Model

The last model is the collaborative model of distribution in rural areas. One of the constraints of direct distribution in rural India is the cost associated with it. Very few companies in India have a portfolio large enough to get profitable business from these markets on their own. This is where the collaborative model of distribution comes in. Within the collaborative model, there are two variants. One is the alliance based model, wherein competing companies come together to service the rural retailers and have a cost-sharing mechanism. This model is about aggregation of demand and servicing the retailers with products from competing firms. This model will have a higher chance of profitability versus the stand-alone models, but will need competing companies to collaborate to service rural markets (Bhakshi 2010).

The second one variant is where a third-party provides infrastructure or a platform to reach rural markets. There would a charge to be paid for accessing villages. This model is still in an experimental stage with a few companies trying it out. As of now companies like Sahaj e-Village limited have started trials of this model, where they are letting other companies use their existing infrastructure of village-based kiosks for distribution into villages. They see themselves as a platform provider which could be utilized by any business which wants to access rural markets.

Concluding Remarks

Though there are many ways of reaching out to rural markets, each strategy has its own share of pros and cons. This section is devoted to understanding the suitability of each model and the challenges associated with the same. The model effectiveness changes with the size of the portfolio size and the expected channel control. Table 5.1 elaborates each strategy and the challenges associated with each strategy. Reality also is that most of the companies do not use a single model, but use more than one at a time to suit their distribution objectives.

And then there is a developmental angle to reaching the rural populations, as has been identified by Vachani and Smith (2008), who in their work on socially responsible distribution, say that reinventing distribution channels is a creative market-based alternative to increasing access through innovation by identifying different routes to reach rural consumers. Periodic markets are nerve centres of rural

Table 5.1 Strategy adopted and suitability

Strategy	Suited for	Pros	Cons
Van-based	Companies with larger product portfolios and higher turnover	High control over the channel Can be rolled-out immediately	High cost-to-serve
Urban extension/ super-stockist	Companies wanting to expand into rural for first time and with low stakes in rural business	Simple to execute Cost can be controlled better	Requires additional investment from existing network
Wholesaler-driven model	Smaller companies with limited turnover and portfolio Least management time and effort Might suit some markets	Can also be among the least expensive Does not require creation of new distribution channels	Least control and difficult to move out of the arrangement and build own network
Hub-and-spoke	Companies with larger product portfolios and higher turnover	Better penetration and control Flexible option for channel structure	But can take time to expand Requires additional investment
Entrepreneur-driven distribution	Companies willing to wait and invest in rural markets	Gives deepest possible reach Can work as long-term channel partner	Long gestation period and handholding needed High level of micro-management Can be expensive to begin with
Collaborative model	Should suit smaller firms which find it difficult to achieve economies of scale	Requires low investment as fixed cost can be shared	Companies should agree to come together, or there has to an external third-party which would be willing to do Focus gets diluted

Source Prepared by Authors

marketing system in India (Kashyap 2012b). They provide a good alternative to reach the interior rural areas as the cost of reaching the outlets in rural areas is higher because of geographical spread. Marketing companies have experimented periodic markets as a distribution channel to reach out to rural dwellers (Velayudhan 2014). Moreover, not many companies followed this alternate channel to get access to the rural hinterlands. Hence, periodic markets can be further used as an additional channel to reach rural consumers (Satyam et al. 2017). Companies need to pay special attention while designing channel for rural markets and ensure availability at local retail store as well as periodic markets (Velayudhan 2014).

Companies have to continue working on distribution level innovation to overcome the myriad of challenges posed by rural markets in India. Multinationals very often adopt the existing strategies from the developed world and fail miserably in emerging markets. They have to offer a distinct value proposition to rural markets across emerging economies. They have to further strengthen the customer retention efforts by providing reliable and consistent after-sales service to succeed in these markets. Companies need to keep innovating as a dedicated after-sales service network for a small number of customers due to geographic spread drives high sales service cost. Success in rural emerging markets primarily depends on the performance of companies on the key parameter of rural-focused innovation. Companies need to help develop these markets, co-creating value for all stakeholders, rather than just capture the existing markets by creating basic infrastructure, and making more investments in rural markets. In return, they can get access to the rural households. Better trustworthiness leads to better sales.

Distribution in rural India has remained a challenge for many years, and companies have tried experimenting with various approaches. The study here identified six different strategies for reaching out to rural markets. Many of these models have evolved over the years. The pros and cons of each approach are discussed. Even today there is no one ideal model which is suitable to the needs of the rural markets. Companies with serious interests in rural should keep innovating and trying out new ways and means of distributing their products.

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Chapter 6
Retailing in Emerging Markets

Hitesh Bajpai and Atanu Adhikari

Abstract Emerging markets are more than a lucrative business opportunity for retailers in developed markets today. Retailers today see emerging markets as an irresistible opportunity to go global. Opportunities and growth rate of emerging economies provide a perfect platform for modern and traditional retailers to grow and expand their business. These markets are viewed as a fuel which will drive a retailer's growth. But historical data suggests that there are more failure stories known to us than success stories. In this chapter, we are going to understand and analyse what the successful retailers have done right and why is it that when retailers try to expand into emerging markets, fail.

Introduction

Retailers from developed economies today are shifting their focus to emerging markets. They are trying to diversify globally and are aggressive on investing in less-developed economies as they see a greater scope and potential in these markets (Khanna and Palepu 1997; Hoskisson 2000). From introducing innovative retailing formats, strengthening back end, optimizing assortment, achieving faster inventory replenishments, maintaining SPF's and MPF's, developing the most advanced supply chain, introducing the most customer-friendly planogram retailers have been doing and experimenting it all. We have seen some great success stories of Retailers who are doing very well in international markets especially in emerging economies. But on the contrary failure stories outweigh in numbers. In this chapter, we are going to understand what the successful retailers have done right and why is it that when retailers try to expand into emerging markets, fail.

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A. Adhikari (ed.), *Strategic Marketing Issues in Emerging Markets*,
https://doi.org/10.1007/978-981-10-6505-7_6

Overview

Emerging markets or (Ems), this term was first coined at the International Finance Corporation in the year 1981 in Thailand at an investor's conference by an economist Antoine van Agtmael, as a marketing catchword when his group was promoting its mutual fund investments first in developing countries (Thailand) (Adhikari 2017). Since then there has been a lot of hype and uncertainty over the term emerging markets.

At any given level of management, when executives are asked to define emerging markets, we get references of Brazil, India, China and Russia. On a few discussions, we even heard the definition of emerging markets as the markets which have not emerged fully yet and hence are emerging. Some name the above countries because they believe that the growth rate in these countries is more than developed countries and because the economic indicators give a luring result. Howsoever the definition of emerging economies varies widely.

A fundamental characteristic of emerging market is a setup where sellers and buyers are not conveniently efficiently or easily able to interact and trade. Every economy tries to facilitate a set up where both the parties can interact conveniently; emerging economies fall short on this in lot many ways. These institutional shortcomings make it difficult for marketers to operate in these markets. These operating challenges and high transaction costs make it difficult for marketers to operate in emerging markets.

If GDP was a criterion to judge and rank world economies United Arab Emirates would rank as the most developed economy, whereas we know that UAE is an emerging economy, only because of its market structure (Adhikari and Roy 2017).

Retailing and Emerging Markets

It is speculated that by 2025, most of the investments in retail will be in developing countries or emerging economies. Consumer spending in these countries or economies is speculated to be higher than in the developed world and modern retailing will continue expanding in order to meet the demand for branded, value added and the segment of luxury goods and elite services.

Rationally judged the opportunities in emerging markets outweigh the challenges.

Siboniso Nxumalo, co-head of Old Mutual Investment Group's Global Emerging Markets boutique stated to FIN 24 that "In a world with low growth, low returns and higher debt levels, emerging markets are offering high growth, high returns and have less debt, there are innumerable prospects that make these markets attractive. Structurally over the long term, emerging markets are where investors want to be"[1] he said. The younger populations in emerging markets are favourable for longer growth prospects. This contrasts with developed markets which face a shrinking workforce and a consumer population.

In 2008, the GDP of emerging economies such as China and India grew at an average rate of more than 7% when compared with the GDP of USA which grew at less than 1%.[2] The opportunities that an emerging economy provides and the rate at which developing nations grow give a perfect platform for modern and traditional retailers to continue expanding their bases here.

In last 15 years, the retail segment has witnessed tremendous growth and remarkable changes. Emerging economies have witnessed a population growth rate of 21%. The per capita retail sales have nearly tripled from $500 to $1500 in 2015. Global retail sales share of emerging economies surged to a massive 32%. When compared to developed countries, the retail sales growth of emerging economies was 11.7% against 5.7%. From 2009 to 2015 the growth rate decreased to 7% while the developed economies de-grew at 1% (Jha and Adhikari 2016).

Retailer's Paradox

Emerging markets pose their own challenges. The slower growth rates, political risks, entry challenges and various other challenges make it difficult for a retailer to enter and do business in an emerging economy. Probably, this is the only reason that statistically only 20% retailers have proven to be successful in emerging markets. This indicates the importance of strategic marketing plan for a retailer before it plans to expand in an emerging economy.

In the current global economic condition, where we witness weakened currencies, unstable political conditions, changing social environments and rising commodity prices pose a serious threat to retailers. Today there is a clear distinction between winners and losers, with which we can clearly conclude that differentiation and not generalization for retailers is the key.

Today retailing is as much art as it is science. Today the modern retail landscape offers the consumers a plethora of channels such as direct selling, catalogue selling, e-commerce, m-commerce, and brick and mortar store selling, mixed formats selling which includes click-and-collect and small pop-up-stores selling. Until decades ago, retailers had an option of integrating e-com into their operations, today it is a necessity, and in fact businesses today start with launching of their web mode first and then evolve into being a traditional retail player. This growth of theirs is fuelled by the growth that they achieve in emerging markets. Today's retailers understand the convenience is the driver of business.

[1]Emerging Market Retailing in 2030: Future Scenarios and the $5.5 Trillion Swing. ATKearney.

[2]Growth, employment and inequality in Brazil, China, India and South Africa: An Overview. OECD Secretariat. Page 5. Source: OECD (2009a) and World Bank, WDI 2009 Database.

Today the aim of every retailer is to become that crucial link in the modern day economy where consumers can get their food clothing health and hygiene goods at the most competitive prices conveniently. Hence, today a very common term globalization of retailing has come into existence. Every retailer tries to stick to a Glocal (Global + Local) framework.

Before a retailer enters a territory, it defines a market into one of the three areas.

(a) Mature Markets
(b) Emerging Markets
(c) Less-developed Markets

Mature markets are markets which have matured over time and where the growth rate is slow and entry costs are too high. Markets of Western Europe and North America is considered as mature markets, whereas Asia, Central and South America, Eastern Europe are generally considered as emerging markets. Markets as in Africa, parts of Asia and South America are generally considered as less-developed markets. This categorization helps a retailer formulate its go to market and marketing strategies accordingly.

Differentiation Strategies in Emerging Markets

Lack of storage areas, infrastructure, connectivity, transportation, mass media and an organized distribution network makes it very difficult for a retailer who is already established in a mature market to sell its goods and services in an emerging market, especially in the rural network. A lot of multinationals like P&G and Hindustan Unilever have invested a considerable amount in developing distribution channels by building strong networks. Project Shakti is a classic example of how strong a network Unilever has built in India. P&G has invested a lot in training retailers about merchandising, supply chain, efficient retail practices, etc., and has built its network in both rural and urban areas.

Retailers also face a lot of consumer-based challenges. Global retailers first need to intercept the consumers need, study their lifestyle and then design solutions accordingly. According to Verhoef Krafft and Reinartz, global companies of today over a period of time have recognized that best retailing innovations happen when they engage their consumers in the innovation process (Sinha and Adhikari 2017). Global retailers also invest heavily in technology and supply chain development in order to innovate solutions which give them an advantage over existing setup in emerging markets. Deciding on the retailing formats is the next strategic question that global retailers face. What works in mature markets might not work in the emerging markets. Huge departmental stores have had little success in emerging markets. In emerging markets, we have seen that small brick and mortar stores (departmental store format) have proven to be more efficient.

Almost all global and Indian retailers that have entered Indian market today are withdrawing from giant hyper formats to smaller stores. Recently, we have seen that Spencers, Tesco, Spar, Hypercity, ABRL (MORE) and Walmart all have cut-down space or closed their stores which were over 50,000 sq. ft. in size in India. According to these retailers, smaller stores with optimum assortment yields better SPF's and MPF's.[3] Hence, they have invented a new store format called compact Hypers. Click-and-collect is an upcoming format which these retailers are eyeing currently.

Branding and private labelling have proven to be very effective in emerging markets as there exists a big brand gap in certain categories. Walmart, Carrefour, Tesco have all proven to be very successful in innovating private label and achieving category leadership. This way they are able to position their products effectively hereby eliminating competition.

Hence Comes the Question of What Have These Global Retailers Done Right?

The basic answer to this would be that they have sincerely decided on a strategy, tested it, judged it and have executed it well. Deciding on a prospective market which looks promising is not enough. Forming a strategy which is relevant to the market, anticipating outcomes and implementing it well decides the future of a retailer in an emerging market. As mentioned earlier retailing in emerging market is as much an art as science. Some retail pundits argue that a retailer should bank upon its core strengths in the existing markets and replicate the same in the new territory that they are entering. However, we have seen that this has been the cause of failure in innumerable cases. eBay is a classic example of an online retailer which followed this strategy. eBay has implemented the same model which it uses worldwide. Probably that did not suit the Indian environment both on the buyers and sellers part. That is the reason that the market leader of a developed economy is ranked 6th amongst top ten e-com marketplace players in India.

A rather wise concept is to adapt to the new market and then bring in innovation. Hence, there is no thumb rule or a set framework that a retailer can follow. Every market is different, consumers are different. Hence, a retailer should formulate a strategy for every new territory that it enters. However, we can conclude that the devil is always the execution. Before deciding on the go to market strategy, a retailer should always learn about the local consumer, their taste and customs (Goldman 1974; Cavusgil 1982; Minten 2008). KFC launched their set menu in USA in India and failed miserably. McDonald's did the same with the same result.

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[3]Sales per square foot (SPF). It is net sales divided by the square feet of retail selling space. Margin per square foot (MPF). These terms generally denote the key measurement parameters that are used to compare the performance of retail stores.

They then studied the local customs, religion, tastes, preferences, regulations in India and decided on their set menus. Their success story in India is today known to everyone.

Most successful retailers in a new territory use majorly the local talent. They hire as less expats as possible, the logic behind this is that the local talent will always have a closer connection with the community and the legal framework. This way an organization is also able to establish better credibility in a new market. In an emerging market being credible is very important. Hiring local talent helps a Global retailer overcome these barriers better.

The next challenge that most successful retailers have overcome is of developing a hybrid culture. Most successful retailers try to bring out the best of worlds, the market where they currently operate and the emerging market where they want to enter and merge them together. This way they merge in technological improvements, supply chain efficiencies, process improvements while keeping the characteristic local.

When SPAR entered India, they did a very innovative study before they designed their assortment. They studied 7-day pattern of an average consumer and then designed their strategy for Indian markets, particularly Bangalore. The study was made on a working class professional. For our convenience, let us name him Rohan. Rohan is 30 years old who works in a software company. They studied hourly pattern of Rohan for seven days. In these seven days, SPAR identified interaction points. Interaction points are the number of times in a week when Rohan had to buy something for his home from a retail store. This study helped SPAR to identify the interaction points at which it could add better value in Rohan's life.

Why Businesses Fail in Emerging Markets

Emerging markets are more than a lucrative business opportunity. These markets are the fuel which drives a retailer's growth. The opportunity to go global is irresistible for every retailer. But one size fits all is a cliché in retailing. Historical data suggests that there are more failure stories known to us than success stories. For example, grocery retailing is dominated in every nation by local grocers. According to Walmart's CEO Mr. Krish Iyer, the category of food retailing offers limited margins, for a retailer to be successful it needs an adequate turnover. In context of nascent Indian retail environment, it is very difficult to achieve that in case of hypermarkets. There are a few successful grocery retailers who could expand successfully. It is known that the retailers who enter an emerging market just for the sake of going global have failed miserably. Companies which enter into emerging markets often choose to go global because their current market is saturated, and they are looking to expand to show their attractiveness to investors as retailing is a low-margin business. Every retailer today has tasted failure when they try to expand just for the sake of expanding their base in emerging economies.

Second retailers which try and expand in emerging markets fail because they face many barriers to enter into the emerging market territory. Carrefour exited India in less than 4 years. It was cited that the French retailer was not able to find a suitable partner. The time target for retailers to launch has often failed. Hence, it is wise for a retailer to maintain a strong position at home to fuel overseas growth.

Third retailing is a high investment low-margin business and returns in that come only over time. Companies have to invest a lot before they are willing to enjoy economies of scale in emerging economies. Citing the example of Carrefour some analysts believe that it takes nothing less than a decade for a retailer in India to establish itself as a renowned player. Retail pundits believe that Carrefour's exit from India was too soon.

Retailers which have tried to expand all at once have also miserably failed. Probably, this is the reason that retailers choose one particular city, maintain a strong position there and then look for further expansion. Target Corporation is the second-largest discount store retailer in the USA but when it entered the Canadian market it opened more than 100 stores in 2 years of its operation. It suffered huge losses and was not able to maintain its position in the new market. It announced complete exit soon. SPAR is the world's largest food store chain with over 12000 stores in 38 countries across 4 continents and meets the needs of over 10 million consumers every day. However, when it expanded its base in India in collaboration with the Landmark Group Dubai was very careful about expanding only after it had established its dominance in one particular region.

Local retailers also face tough competition from the country killer in an emerging economy. To compete with an existing retailer who has already expanded in an emerging economy is a very tough task. The retailer which is entering an economy has to face many challenges a few of which we have mentioned above. A lot of time retailers withdraw their operations as they are not able to face competition. GAS, Etam, Replay, Argos all have ended their JV's and have exited India as they were not able to sustain and compete against local players. Best Buy had to exit China for similar reasons. The Chinese consumers flanked the local stores as the perceived that the prices in Best Buy were too high when compared with the small local shops.

The biggest mistake the retailers make is that they divert their whole attention to the market they are trying to enter. They many a times ignore that they have to focus at home. As we mentioned above, a retailer has to focus on its home ground to sustain its position overseas. As stated earlier, innovation is something that is very crucial for a retailer to stay relevant in the market. Most retailers have failed because in lieu of expansion they forget that they need to innovate in their value offering. One size fits all does not prove to be a successful strategy for retailers today. Most retailers often sell what they can buy rather than trying to buy what the customer wants. Economies of scale are achievable only when a retailer is relevant in the market.

Also entering into the emerging markets at the right time is very critical. Retailers often enter a market very quickly. This is the time when the consumer and the market are not ready to accept a particular format. Retailer often exits a market too soon after launching without even assessing the full potential of the market.

We can conclude by stating that though emerging markets is a lucrative opportunity a retailer should do a rigorous SWOT analysis before it enters into a territory. It should frame a perfect entry strategy and execute it well. Retailers should measure their success on a perpetual scale rather than on dollars. The retailers should only focus on adding value for the consumer's; this will yield profits over time. First to market is always an advantage. It is never good to be a laggard. The one which enters the right market at the right time with the right format and the right strategy will WIN.

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Chapter 7
Effect of Store Loyalty on Impulse Buying Behaviour in Emerging Markets: Observations and Propositions

Dola Sarkar and Mahuya Adhikary

Abstract Impulse buying is an unintentional buying decision of a product or service, by an impulse buyer, made just before a purchase. Previous study explores that the emotional feelings play a significant role in purchasing, generated when exposing with the product or to a well-crafted promotional message. This study helps to identify the determinant or relational factors of the impulsive behaviour of the consumers towards different products in market. Generally, it is found that when customers enter into a store, they have specific intention and effective interaction with the particular store environment and with store people which generate higher attachments and better-perceived values. When evaluating the store environment, it is found that hedonic urge to buy impulsively is in higher levels for the impulse buyer. The change of purchasing pattern of Indian consumers and change in consumption patterns with increasing competition in retail market really insist the retail trader to think on the total effect of store in case of impulsive products. The relevance of the current study is to recognize the stimulators that trigger impulse buying and to discuss the consumer behavioural patterns, attitude and perceptions towards the product in impulse buying process and how store loyalty of the customers in the emerging markets deviates due to impulse buying characteristics.

Introduction

Impulse buying is defined as on spot purchase and an unplanned buying decision, generated due to action of stimulus. Stimulus is exaggerated through the possibility of touching the products and by getting clear and obvious information about special offers from the retailer which insist the consumer to remember about their need and activate sensory marketing. Impulse buying attitude is a mystery in the marketing

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world, for which a considerable volume of products is sold every year with a wide range of product categories. In developing countries like India, Russia, China and South Korea hypermarkets, mega-marts, multiplex malls are the new aspect of current retail settings and the dynamic growth of retail industry with numerous domestic and foreign performers aggravate the level of the individual consumption patterns of its population have been transmuted remarkably during the last two decades. The fundamental shifting of the consumer spending patterns, lifestyle changes, increasing disposable income and also favourable demographic segmentation of population have extensive implications on the manufacturers, marketers and retailers in their products and services. Citing the example of the growth of organizing retailing in India (rated fifth, based on global retail development index, reported by AT Kearney, Ecommerce Technology) has dramatically changed the buying behaviour and impulse buying is evolving very observable behaviour. So, understanding consumer impulse buying behaviour and its relation with different loyalty factors are essential in present emerging economy to make sustainable growth in retail market, and this growth of retail industry highly externalize to consumers' loyalty driven by different marketing strategies and tactics. The key interest of this study was identifying the influence of direct and indirect antecedents like in-store stimuli, the level of commitment, satisfaction and trust, shopping enjoyment, loyalty incentives, and perceived service quality to consumer impulse buying behaviour in emerging markets.

So with the increasing competition of retail markets, customer loyalty becomes more important in case of impulse buying. Kaur and Soch (2013) believed that the loyal customers are fewer prices sensitive, more prone to purchase and spend more than other people. Beerli et al. (2004) again suggested that the loyal customers enhance the organizational value and create brand image. Reich and Sasser (1990) indicated that it is possible for the companies to reach their profit around 100% if they recall 5% more for their customers. Thus, customer loyalty is an important factor to companies' competitiveness, especially in case of retail business to insist impulse buying.

Omar and Musa (2009) noticed that how customer loyalty program made an impact on the Malaysia's superstore and significantly helped to generate the customer satisfaction. Ou et al. (2011) also observed the positive connection of service quality with customer loyalty in Taiwan departmental store and the result partially supports a progressive influence on customer loyalty which indicated that quality of service can inflate the customer loyalty through the relationship quality and relationship commitment.

Bakti and Sumaedi (2013) investigated on the library industry of Indonesia and studied that how customer loyalty directly and indirectly linked to service quality and customer satisfaction level. The above study also confirms that service quality indirectly associated with customer's satisfaction level and indirectly influenced customer loyalty.

Thus, there is a powerful relevance among the customer loyalty program and the service quality in retail market industry and service sectors in different countries. Customers have become very demanding and various in natures. So it is really a complex process to understand their behaviour, their needs and wants. Giving proper value treatment to the customers and concerned attitude is the only way to succeed in competitive market as well as to capture the market share.

Factors of Customer Loyalty Which Affects Impulse Buying

There are some direct and few indirect antecedents of store loyalty which affect the impulse buying process. The direct antecedents of customer loyalty in impulse buying are:

1. Commitment

Dwyer et al. (1987) defined commitment as the assurance of relational stability or promise, both explicitly and implicitly between the exchange partners. They focussed on the well-built mutual relationship between buyer and seller for which can both achieve a level of satisfaction. Morgan and Hunt (1994) also expressed the same view on commitment where one partner considers the relationship with another partner and they want to continue this rapport or dedication only when the loyal parties consider their bonding is important. Thus, commitment can be expressed as an affectionate bond of individual with the particular organization (Akehurst et al. 2009). It is an essential component to maintain long-term relationship (Dwyer et al. 1987; Morgan and Hunt 1994). Higher the association, higher will be customer trust and loyalty (Ou et al. 2011). Ranganathan et al. (2013) also established that the emotional commitment has a positive encouraging relationship with emotional loyalty.

Thus in developed countries, customers are more loyal towards a particular brand and commitment towards a particular brand increases with the increase of brand loyalty. In the twenty-first century, diverse openings are available in different emerging retail markets which include the distribution systems share, the acceptance of equivalent prices and promotional activities of competitors by retailers. In an extremely competitive market, the retailers who provide a pleasing shopping experience with satisfaction level beyond the expectations of their customers can survive and become popular. Strong and deeper relationship of the salesperson with the prospective customers can only overcome such difficulties (Banerjee and Saha 2012).

In emerging economies (like India, Russia, South Korea), developing countries like India where most of the people are in search of products of low prices is now shifting to “price plus” world due to high technological influence among the youngsters. Like in India, maximum number of population in India is young generations; they try to switch over from one brand to other. There is also a trend of going shopping with family among the Indians core consuming class which not only saves time but also providing some additional time to spend with the family. These consumer classes prefer shopping “all less than one roof” which not only saves time, but also enhances shopping experience with leisure and recreation (Banerjee and Saha 2012). Russian also focuses on their family life, and it affects their shopping habits. The percentage of Russian consumers who shop frequently for their whole family is almost 53%; that is, 8% more than when compared with global percentage which is near about 45%. Personal consumption level of Russian consumers is very less, only one-third (32%) of Russians consumers shop for themselves. Maciej (2015) also given the priority on the loyalty programme and focussed its impact on different age groups and generations, which should be considered as a tactical advantage for FMCG brands.

Thus retailers with their smart brands will focus more to improve store interiors as well as the overall shopping experience of the customers. It changes brand perception positively and initiates impulse buying. In contrast to Western markets, Chinese salesperson keeps good relationship with the customers. It may be due to the innovative spirit of the Chinese people, and the excessive focus is involved in building the relationships for proper business decision-making process. An efficient salesman must be proficient enough to maintain the quality relationships with the potential customers, and they also should make a friendship with the customers to retain them in future (Harrison and Hedley 2010). So various sales promotional messages have a positive direct control on consumer behaviour as it persuades a consumer to buy impulsively through on spot decision, enriches value of the products on the temporary basis and also encourages brand switching. This is the commitment on sales and after sales offerings which can bring trust and loyalty to their customers in terms of relationship.

Thus in case of emerging markets commitment towards a particular brand is highly influenced by the store environmental factors which ultimately improve the impulsive attitude towards products.

Proposition
In case of developing countries:

- Customers are less loyal towards a particular brand.
- Commitment towards a particular brand is highly influenced by the impulsive factors.

2. Satisfaction

Oliver (1999) defined satisfaction as a pleasing realization and he considered satisfaction as the customer perceived pleasure or displeasure towards the outcomes of consumption level. Yap et al. (2012) also recommended that the satisfaction has a direct and encouraging effect on loyalty. Thomas (2013) considered that higher the satisfaction, higher customer loyalty. Miller et al. (2013) focussed that the satisfaction is one of the elements which controls customer loyalty. Many other existing literatures described the relationship between satisfaction and customer loyalty. Thus, it can be summarized that there has a great alliance between satisfaction level and customer loyalty, especially when the consumption meets the satisfaction of the customer with perceive pleasure. Developed countries also follow a close connection between degree of satisfaction level and customer loyalty.

The degree of satisfaction level reflects several implications for managers in Indian market. Kaur and Singh (2007) revealed their study on the buying behavioural pattern of Indian youth and focussed on various stimulating factors like background music, odour or touch of the products perform vital role in satisfying the individuals and could motivate them in impulse buying. Kurtz (2010) pointed out that all of the in-store stimuli taken by the retailer affect the impulsivity of the customers in retail stores in Indian market and the overall the promotional mix can differentiate one store from the others and attract customers. Since most retailer and marketer are competitive in nature, they should think about their reputation as differentiator. At the same time large self-service retail chains cannot ignore the importance of service quality in Indian market. Thus, Indian retailer needs to go beyond satisfaction to retain their customers. The study of customer loyalty research on Waymart Group (Chinese retail supermarket) has some implication where they revealed the fact that loyalty provides support to differentiated strategies. The study on customer loyalty is a crucial parameter for modern retailer, especially for supermarkets (Wen et al. 2009).

Proposition

In case of Indian emerging markets:

- The level of customer satisfaction has positively related to store preference and perceived pleasure.
- Customer satisfaction results in unplanned impulse buying and retail profit.

3. Trust

Trust can be demarcated as an eagerness to depend on an exchange partner in whom one can make his self-reliance (Moorman and Deshpande 1992). Morgan and Hunt (1994) stated that confidence brings the reliability of exchange partner and honesty, and trust is main important factors to influence the liaison between purchaser and organization. Chaudhuri and Holbrook (2001) found that trust can compel customer to purchase more, and it can produce positive attitudinal loyalty. Kaur and Soch (2012) agreed that indicated trust is constructive experiences of customer loyalty. Yap et al. (2012) accepted that trust has an encouraging outcome on customer reliability and also considered that customer confidence or belief is working on the service provider and this service will bring the honest relationships. At the same time, trust factors not only work for present outcome, but also they continue in the future. Miller et al. (2013) also indicated that trust is an important key factor to manipulate customer loyalty.

Microsoft, Wal-Mart and Coca-Cola are all high-value retail brands valued their brands more than their turnovers. This is only the result of building trust and maintaining long-term relationship with their customers. So brand positioning is the outcome of confidence level of the customer that generates from retail reliability and honesty.

Indian retailers also target to build brands that can win the trust of consumers and follow loyalty (Panda et al. 2014). Trust factors are identified which includes accuracy of information about the products and service data, recommendations and about company. In Indian emerging markets, online shopping is increasing day by day. In case of online shopping, trust is an important factor and can be measured by communication of retailers with consumers before purchase, payment security, delivery costs, claims and return in time and also the rules and regulations, protection of consumer rights and privacy of customers (Decker 2013). To obtain competitive advantage and for proper positioning of the brand, trust is measured as one of the key factors in present emerging Indian market.

Proposition
In Indian emerging markets:

- A good shopping environment to provoke brand trust.
- Trust generates a long-term relationship between retailers and loyal customers.

4. Multi-store shopping experience

According to Wilhelm and Mottner (2005), the number as well as the variety becomes a crucial aspect in case of teenagers as they prefer multi-store shopping. Wang et al. (2000) and Anderson et al. (2003) found that retail blend (mix) or the proper assortment of stores and services are the key factors of t attracting large number of shoppers. Thus, the tenant mix is a significant feature in retail scenario. The range of tenants includes all the supermarkets, departmental stores, different apparel stores and amusement or leisure facilities (Abratt et al. 1985; McGoldrick and Thompson 1992). Similar stores are generally clustered together, and these collections of different brands bring more numbers of customers towards the shopping mall. Nowadays many smaller shopping malls are sprang up, renters like restaurants as well as fast food outlets; clothing stores are providing services, mostly benefitted by the variety-seeking customer.

Organized retail sector in Indian market is undertaken by licensed retailers. They constitute the corporate formats of hypermarkets, supermarkets, exclusive brand outlets, departmental stores and shopping malls. The earlier data revealed that the 73% retail sales take place on food-related items in the year 1999. In recent years, there is a higher spending on non-food item also due to better infrastructure, consumer awareness to buy branded goods and desire to purchase quality products and service. This set-up of retail in Indian market accounts only a very low percentage of retail industry. Due to lack of infrastructure, deficiency of product variety and a conservative mind of Indian consumer, the organized retail market in India still considered a dormant sector.

Presently, scenario is gradually changing; the Indian consumer invites the multi-store concept in emerging market. By offering excess of brands under one roof at high discounted rates, multi-brand discount stores govern the Indian marketplace. Thus, one prefers a single destination with various offerings under one roof than to visit various distinct brand stores. This can be focussed the retailers displaying varied products which have different size, style, option, colour or pattern to choose.

Proposition
In Indian emerging markets:

- Multi-store shopping experience under one roof reduces the cost and time of the customer.
- Organized retail helps to maximize sales.
- Structured multi-store facilitates in building brand name recognition.
- Strong branding helps in getting more customers and strengthens the loyalty between customer and the firm.

The indirect antecedents of store loyalty in impulse buying

1. Loyalty incentives:

Customer loyalty program is described as coordinated and relation-based marketing activity, which was planned to strengthen marketing interactions within customer and organization (Lacey and Sneath 2006). A loyalty program is projected to create customer loyalty by given motivation to prospective and profitable customers (Yi and Jeon 2003). Different groups of retailer tacitly recommended that the aim of the loyalty program is to insist customers for repeat purchasing (O'Malley 1998). According to Wright and Sparks (1999), the chief demand of the customer to join loyalty card program was free rewards, coupons, money off and accumulation of points for future discount.

Some researchers considered about customer loyalty program that it brings constructive touch on customer's satisfaction and trust (Ou et al. 2011). According to Meyer-Warden (2008), the loyalty membership has a significant impact on customer's repeat purchase behaviour. Gamez et al. (2006) examined that customers who participated in loyalty programs were positively reflected and their attitude, as well as satisfaction level, trust towards company's brands were highly satisfactorily than the customer who didn't participate.

In India also loyalty programme are gaining popularity and marketers and researcher all are giving them importance, but focus on customer loyalty programme in the Indian context have been limited. Loyalty programme in India seems to be luxury as Indian are culturally and economically different from USA and other Western European countries. Presently, getting the customer back through loyalty programme is only the target of Indian retail sector. The amount spent by repeat customer much excess than the first time customer. So it can be more profitable to lose a bad customer than support an existing customer through different reward programmes. The retailers must be stimulated to return back their old customers. In India, the different retail chains follow various loyalty programmes to attract their potential customer like:

- Pantaloons offers “Green card reward programme”.
- Shopper’s Stop offers “First Citizen” (around 2.5 million customers through loyalty programme).
- Westside offers “Club West” (given complementary membership when a purchase crosses Rs. 2000 and Rs. 5000 on the same day).
- Lifestyle offers “The Inner Circle”.
- According to Nielsen report, although Chinese Consumer is not actively involved in retail loyalty program right now compared to the consumers in other countries. The number of retail loyalty programs where each person participation is only 2.14 in China and worldwide number is 2.39. The participation rate in Greater China (61%) is a bit lower than the figure worldwide (66%), and much lower than the percentage in India and Southeast Asia, where more than seven in ten consumers with online access say they participate in one or more retail loyalty programs 74% and 72% respectively (Nelson 2012).
- The Chinese retailers are now concentrating more on loyalty programs. Chinese still show a high passion for the features of such program and are willing to join. In Nielsen’s Global Loyalty-Sentiment Survey Chinese respondents in particular are (86%). This means that retail loyalty programs have a bright future in China.

Proposition
In Indian emerging markets:

- Loyalty program retains their existing customers.
- It increases the long-term customer relationship and lifetime value.
- Customer’s word of mouth also boosts up the sales volume and it reduces the retailers promotional and advertising cost.

2. Service quality:

Service quality relates itself directly with business process. According to Yap et al. (2012), service quality is the assessment of customer service and enabling measurement of service quality. Service characteristic, such as convenient branch locations, operating hours and range of services, which they indicated positively related to the satisfaction level of customers.

However, it is widely accepted that service quality reflects customer attitude which measures the service performance and customer expectation, and it is also linked with customer appraisal concerning the element of service (Bakti and Sumaedi 2013).

Jang and Namkung (2009) reflected the customer’s observation on service quality (both tangible and intangible characteristics) and concluded that a good quality of service brings positive impact on customer’s emotion and also playing as a motivational role to affect emotional state of customers. Moreover, some scholars demonstrated that service quality has an encouraging liaison with the satisfaction of the customer (Ranganathan et al. 2013). However, further investigation also suggested the direct effect of service quality on customer's satisfaction and trust (Ou et al. 2011). To create customer delight strategy through mobile service, especially for daily interaction, customers are more delighted to use phone service than directly visit to the branch. US customers are more delighted to use mobile app, which is one-third greater than a branch visit for a routine interaction and again conversely it is seen that a routine branch visit annoy a customer 2.4 times than a routine mobile app interaction (Toit and Burns 2015).

Thus, the key role of service quality is crucial to improve customer interactions and also to increase trustworthiness and loyalty within customers. The traditional service quality dimensions have to be altered to measure the service requirement of the customers and required satisfaction level and it is also noticeable that customer's expectations is directly correlated with service personnel's interactions with them. This is a concept of relational retailing where high positive association exists between numerous service magnitudes, and the assessment of the service quality is generally dependent upon different age groups in Indian market.

A deeper investigation has been conducted to expose the fact that to boost impulse purchases duty-free environment in the airport is required. Rossi and Tasca (2007) had observed the present picture of emerging markets like India, China, Brazil and Russia, where the growing medium and upper classes are more prone towards travelling and the money spent in airports by people are more than before, so air travel is one of the main forms of income for airports. It is also estimated that the growth of this sector is very high in near future.

So the presence of the retail sales personnel is essentially a tangible part of the Indian retail transaction which assures the customer to retain and keep their promises, information and also share the experiences about the products, handling diverse customer related issues if any, solving problems and making direction rightly. The positive relation of the retailer with the customer gives confidence so that customer may feel that the retailers are aware of their "sole and specific" needs as well as customer would be simultaneously confident enough about the quality and service part of the retail store.

Proposition

In case of Indian emerging markets:

- Service quality attributes play an essential role in customers mind.
- Service quality is very challenging for the growth of retail sector.
- Sympathetic and understandable attitude of the sales personnel to the customers increase impulse buying.

Conclusion

Indian culture is considered as socialist in character and Indian people always prefer to maintain a long-term strong bonding in their relations. Here, societal and group customs, rules, norms, values, relationships norms are given preference which may be reflected in their assessment of commitment and loyalty towards a particular brand or in evaluating the level of satisfaction, trust or quality of service in retail sectors. In India, customers also desire to maintain a long-term association with the vendors. In Indian market, the local retailers behave as a family member with their existing customer and they not only know them personally, but also acquainted with their families. The store salesperson sometimes guide them about the up to date market information regarding the new product launches, discounts, coupons, services, returns and repayment plans of the company. Simultaneously, customers also like to discuss with retailers in case of any purchasing decision and acquire complete guidance, advice as well as clarity about their requirements which most of the time results impulse buying.

Collinson Group's report by SSI was conducted to measure loyalty percentage of customers in Greater China and Hong Kong in the month of January. The research was identified 6,125 participants around the globe and it was based on the involvement of loyalty programs for supermarkets, hotels, media companies, airlines and cafes, but the percentage of loyalty programs from 2014 to 2015 fell only 20%.

Although this study reported that 89% of mainland Chinese respondents and 87% Hong Kong people agreed the complete success of the products or brand in Greater China is the outcome of the success of loyalty programs and it helped to increase their urge to spend more, but unfortunately the numbers are very less, where only 45% of respondents in Hong Kong feel involved in loyalty programs, and only 34% of mainland Chinese consumers recognized that loyalty programs have enhanced the brand value of the company (Jing Daily 2016).

In emerging market, the behavioural components of the sales personnel are more crucial than any tangible elements. As many of the grocery and household items in Indian retail sector run by the family members and the administration is unethical. At the same time, many discounts and departmental stores which are in big form should give loyalty incentives and priority to be given to the performance of service personnel and their behaviour to attract more customers than the small retailers. These stores can also increase the customer's satisfaction and trust towards a particular brand which also increases impulse buying. Many services like assisting the aged in the shop, free home delivery, taking orders through telephone, and making friendly attitude to customers and guide them properly are generally followed by majority of retailers in emerging countries like India, China, Russia and South Korea to develop their brand as well as present market share.

Recommendation

Emerging market retailers should not engage themselves scrappy competition and depend on volatile environmental result of retail market, they should understand the consumers' affections. The best approach of retailers in emerging market is honesty and a sense of innovative idea to support the expectation of the customers. Customers are generally more inclined towards greater comfortable retail circumstances, and the job as a retailer is to recognize the realities of that customer expectation.

In an emerging market, successful retailing not only depends upon the internal store equity and a source of basic needs, but also it is a goal for objectives as well as a hub of information and knowledge. Citing the example of the retailers in South Africa (Pick n Pay), who try to create a rigorous attempt to attach with the lowermost segment, who generally visits stores mostly for inquisitiveness and for entertainment purpose. Here, retailers often display the widest range of items to persuade and insist them towards the product. And on-the-job training turns salespeople into forefront educators.

Retailers should deal with different complex problems in their own way and focus on customized solution. These solutions can be linked with the consequences for marketing strategies and can easily enhance customer's impulsivity.

In emerging markets, retailers should not focus only on high-end segments. Instead to reach the top end of demographic pyramid, retailers should create a mass market for maximum profitability, which can only be possible through positive commitment from retailer's side and satisfaction and aspiration from buyers end. As there is little elasticity of demand for impulsive items, marketers in emerging markets do not only focus on affluent segments. To make the product reasonably priced for the masses, retailers should maintain service quality and also plan to target the products for the low-income groups. The charm of status is not enough to persuade consumers to buy, instead the challenges retailers should encounter in emerging market to take care about products and service quality as well as customer loyalty to establish their brand. By tapping into the astuteness of these market mechanism, marketer or retailers should take the challenges and place themselves a big step ahead to face the local or global competitors.

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Chapter 8
Rural Marketing

Puthanpura Abdulla Khaleel

Introduction

Companies face unique challenges while operating in the rural regions of the emerging markets where large number of customers live in India. This "bottom of the pyramid" class as described by C. K. Prahalad in his book "The fortune at the bottom of the pyramid" describes about the profit that can be earned by selling products to this rural market. The majority of the emerging market nations continue to have largely agrarian-based economies. Creating products and services for this large and wide sparsely populated rural area have got unique challenges and also have enormous opportunities for companies.

The main emerging markets or economies are China, India, Brazil, Mexico, Russia, Indonesia, South Africa, Turkey and Thailand. They consist of 70% population of the world and 90% of GDP of the emerging world. The problem for the emerging market is that the population is widely dispersed, transportation infrastructure is very poorly developed or not even existent, household incomes are very poor and conventional methods of creating a brand awareness will not work.

In India according to the 2001 census, 72% of its population lives in a rural area that is in 6 lakh villages, of which more than 85% have less than 5000 people/villages. According to Pradeep Kashyap, 68% of the rural market is still untouched due to inaccessibility to this low-density areas, and it needs high inventory and high transportation cost and should have thousands of sales points or shops in villages to reach customer expectation.

Even though there are lot of hurdles for marketing products in rural areas of India, we can see a quick acceptance of many products/services and are having high demand since long, and I would like to sort out some of the reasons why it happens.

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A. Adhikari (ed.), *Strategic Marketing Issues in Emerging Markets*,
https://doi.org/10.1007/978-981-10-6505-7_8

I would also like to see why rural marketing is so important for the Indian or foreign companies and to see the strategies required to market in rural India and to provide some suggestions in order to make rural marketing a success.

Strategic Marketing Issue in Rural India

Rural market of India is growing at least by five times than the urban market. 42 million household in rural region has bank accounts compared to 27 million bank accounts in urban region. The rural regions are getting connected with roads compared to the previous years. 90% of the villages are electrified and 44% homes are having electricity. Living standards are improving day by day, and "pucca" houses are built in villages. Literacy rates have increased, and a number of mobile phone connections are increasing every day. Wi-fi connections and other modes of Internet connections are better and people are interested for latest technologies. Percentage of BPL families has declined, and people have got more disposable income.

As the expectations of the people in the rural regions are increased manifolds, manufacturers can capture large market share by meeting the expectations of the rural people. HUL was the first multinational company who could penetrate to Indians rural market. They had to launch a strategy called "operation streamline" where which they had to carry products by bullock cart, tractors and bicycles, and they also appointed star sellers and distributors. In 2000, they started project Shakthi to reach rural regions of India.

The main aim of our study is to observe the potentiality of rural market and various problems being faced by the rural market and to discuss the emerging problems in the rural marketing.

Strategies of Rural Marketing

Some of the strategies which can be helpful for improving rural marketing are

(a) Product strategies

  (a) Low price—one rupee packets or very low price packing is a must as disposable income is so low for the villagers. In developed nations or in cities, very low price may not be important as people can afford to buy FMCGs and stock it at least for weeks or months. In rural areas, as the people's daily wages are very low and they spend on day-to-day basis and they will not spend much on buying things.
  (b) Small packets—small packets are mainly for making the products affordable for the villagers. In cities/developed countries, big packets are convenient as the consumers can reduce commuting to shops/market.

(c) Strong long-lasting products—sturdiness of the product is required for the product to withstand the handling and storage. Products in the rural areas should be sturdy enough to withstand rough handling and storages. Cities and developed places does not need to have this strong packages as their transport is much more easier, and city dwellers will have special appliances or storage facilities like airtight jars/fridges to store these type of perishable items.

(d) The new product design—products should be designed in such a way that it gets attracted by the villagers such as bright colours and should also have modified design like sealable packets for washing powder, soap powder.

(e) Branding—brand name awareness is increasing in rural India too. In developed nations, branding should be done to compete but in rural market brand names are synonyms with the products. First movers always have the advantages of branding, e.g., Ujala is a liquid fabric whitener, but in rural India they look for Ujala not liquid whiteners.

(2) Pricing Strategy

(a) Simple/cost less packing—for rural people cost cut is an important factor, so the packing should be simple, whereas in cities or developed countries packing should be sophisticated and elegant so as to attract customers. Parachute oil has a simple packing, or they have sachets to market in the rural areas which is very cost effective, whereas for urban market they have a sophisticated and stylish packets so that it has added attraction due to its aesthetic design.

(b) Substituting of products—its always better to substitute the components of the product with less costlier substances without affecting its quality or functional efficiency. But Indian rural market and even urban market have seen a totally unethical move from MNCs as they provide cheap products with substantially compromising quality. It is always a problem in rural market as the quality check is not followed in many developing economies.

(c) Reusable packets—containers or jars which can be reused are an attraction for rural customers to buy products, and villagers try to use every component to the maximum, and they usually do not waste this containers. This is also a value addition for rural market, as these type dual purpose components have greater impacts on their affinity towards buying a product.

(3) Distribution Strategies

Distribution is one of the toughest and complicated issues in rural marketing. Most of the manufacturers or marketers use many methods of distribution. Basic storage amenities will be lacking in rural region, so inventory and requirements should be monitored so that unnecessary stocks will not get accumulated and spoiled.

(1) Public events—each and every villages in India has small get together or festivals for which all the villagers come. These are some of the main areas for promoting products in rural regions of India. These villages where mandis happen are served as a central village, and people prefer to buy their products from this type of melas. Serving products in this type of melas can introduce a product and can literally bring branding for these products.
(2) Distributing in their own vehicles—one of the main way of distributing products in rural region is to use their own vehicles or vans, and these vans can take products to rural distributors so that this distributors can sell products to the customers. This can establish direct contact with customers and can promote sales. In urban areas, this distribution can be through e-commerce to shopping malls and there are multiple distribution channels.
(3) Post offices—Indian post offices are at a verge of extinction as letters are replaced by telephonic conversations, emails and simple mobile SMS. So government of India is trying to introduce different schemes to stabilise post offices, and one of the ways is to take this e-commerce products to the consumers. Other way is to act like banks in rural India. If the products can be delivered through post offices that are the best way for distribution of this MNC product and intern, then this can revive post office from collapse.

(4) Promotion strategies

Before some years that is before the advent of smartphones, radio was one of the main way of promoting products in the rural market, but now information revolution has happened and almost all villages are connected either by Internet or by TV. This has made promotion easier and cost effective.

(a) Through cricket and other sports—cricket is one of the most watched games/entertainment in India and almost everyone follows cricket. Cricket penetrates even into the deepest of the rural regions of India. So sponsoring games like cricket is the easiest way to promote a product. For example, Pepsi and Coca-Cola used to promote their products by sponsoring cricket World Cup matches, and it was a huge success. Every nook and corner of India heard about these international soft drink giants, and both urban and rural markets positively responded to these products. These products where unheard by large number of Indian customers before the World Cup cricket.
(b) Promotion through well-known personalities—many movie and cricket stars are well known in the rural region like Shah Rukh khan and Sachin Tendulkar; so by using these personalities products will be successful promoted, and there will be a strong brand association. Shah Rukh Khan is even seen on fair and lovely advertisement, and this can promote sales through easy identification of the products.
(c) Associating this products with India—it is one of the best strategic moves for promoting products in India, and MNCs are associating themselves with India and talking about it to promote their products. All MNCs use this technique so that their country of origin is not written on their products.

(d) It is a normal tendency for Indians to associate them with the products, if the promotions can make the consumer feel or can visualise themselves with the product, the consumer will become loyal to it.

(5) Marketing strategy

One of the chief hindrance in marketing rural India is the diversity of languages. There are about 23 constitutionally recognised languages, and more than 100 languages spoken in different parts of the country, so translating to all this language while making advertisements or promotion is too cumbersome. To effectively communicate to these consumers, it is always better to bring celebrities and endorse the product with small meaningful actions. Another way is to utilise rural melas to reach out them in their own languages so that they can associate themselves with the product.

(6) Sales strategy

(a) Brand perception—rural India is trying to buy products from branded companies, even though people could buy cheaper products. For example, even though villagers have neem sticks or mango sticks for brushing tooth and its cheaper and good way of keeping good oral hygiene when Colgate started branding tooth paste with some cheaper brushes, people started moving from their old tradition to this new concepts. This is a good example for rural India getting adopted to brand concepts. This may be because of the misconception that all multinational products are of high quality and better for the price.
(b) Social and cultural values—rural people are emotional and sensitive so marketing should take that as an advantage and promote their products by exploiting this cultural values.

Issues in Context in Developed Countries

Rural market in developed countries is not having the same issues what developing countries rural markets are having. Some of the main differences in developed countries rural market are

(a) Cultural factors—even though developed countries suburban areas and villages may not be as rich as its cities, they almost have same shopping culture. They may compromise on the quantity of the products bought but will buy the same items what urban customers buy.
(b) Media coverage—rural areas of developed countries are well connected with all mass medias and does not require any separate marketing channels to reach villages.

(c) E-commerce—rural areas of developed countries are well knitted with proper transport and infrastructure, and this has helped to promote e-commerce in such a way that any product can be delivered at door steps.
(d) Financial status—purchasing power of rural areas is good in developed countries, even though they may not be compared to their urban counterparts. There are differences in the urban and rural areas in buying luxury goods in developed countries.

Issues in the Context of Emerging Market

Rural marketing in developing nations requires considerable investment. As it is a largely untapped area and has a huge potential for business, there are considerable interest in promoting products in these areas. Main problems facing by the companies while doing business in rural market are

(1) Multiple languages and dialects—difficulty in communicating about the product. Brand awareness is difficult and customer feedbacks are also difficult to obtain.
(2) Lack of infrastructure—no proper roads/buildings and storage areas for the products are available in villages, so logistics to rural areas are difficult. As there may not be any way to reach some villages and even basic amenities like hospitals, shops or petrol stations are not even connected with roads.
(3) Huge inventory—as the density of the population is less and need for covering large area is required and these areas will be away from cities, the company has to stock products in some areas.
(4) Customer feedback—it is relatively easy to understand the purchase behaviour of urban population as many of the managers and owners of the industry live with them, and they get positive and negative feedback from the customers which are very essential for growth, but in villages its difficult to understand how they rate some products. It is difficult to understand villagers behaviour and sometimes have unpredictable notions about some products.
(5) Uneducated people and poorly developed market—this is one of the main reasons why marketing in the rural region is difficult. People are not aware of many new and basic things in life so the companies have to first teach them about the use of the product and then market it accordingly. For example, use of soaps for personal hygiene is one among them, and rural India does not even think about using toilets for their bowel and bladder habits, to tell this people to use soap is difficult because they are unaware about communicable diseases. So before promoting a product the companies may have to teach people about the use and necessity of the product.
(6) Inadequate media coverage—many rural India has not even connected with radios and many do not have TVs, computer and Internet connections which are not proper even in cities. So it is difficult to have proper communication with villagers.

Discussion

As rural areas of developing countries are growing in a rapid pace, the need of basic products like food items, FMCG products are increasing day by day. To serve these basic needs, both government and manufacturers have to invest to reach this underdeveloped areas. To uplift this people and to provide this, basic needs have to be done from the government as the first step. The need of banking system and producing goods at individual village level so that each villages are self sufficient is the best way to improve living. To improve this standard of living of 6 lakh villages, it is Herculean task and that has to be carried out in a war foot basis.

Even though these basic amenities are lacking in rural region, the increase in consumable goods market is a positive sign for the manufacturers to step in. Low-cost small packet goods which they can buy with disposable income of a days wage are the key to enter rural market. Most of the people does not store goods for long time, and they live on day-to-day basis as they do not have household infrastructure to store things.

Recommendations

- Rural infrastructure should be better built and coordinated, i.e. railways and road networking should be good so that perishable goods' items could reach the consumer in time.
- The mass media communication should be made available in rural India too; so that information and marketing can be passed from the manufacturers to consumers.
- Rather than MNCs come and sell their product in rural India and drain our money, its better to develop production and manufacturing units in villages itself. Developing technologies and helping those villagers to develop products which are needed for their living is the best way to boost the rural economy.
- Government should encourage microfinance and low-interest rate banking in villages so that people get encouragement and courage to start businesses which in turn will develop the standard of living and will further boost countries GDP.
- The entry of MNCs is unavoidable so government should have quality checking departments to check the products marketing in the villages or poor people will be trapped in the marketing gimmicks of these companies. For example, seeds distributed by many companies had good yield but farmers were forced to buy same seeds for higher cost in the next coming years.

Chapter 9
Rural Marketing Issues in Emerging Markets

Bhanu Prakash Nunna

Abstract This chapter examines defined rural marketing, the perspective of rural marketing, how rural marketing is different than urban marketing. It starts with introducing rural marketing, the social, economic, and cultural factors that influence rural marketing efforts, and how these factors need to be considered in order to come up with a strong marketing strategy. Although the analysis finds that rural marketing in the context of developed nations is slightly different than the context of emerging markets, there are some commonalities in terms of the fundamental issues which can be addressed in the similar fashion as they have been done in rural segment of developed nations. This chapter also talks about the factors influencing the customer loyalty, trust, and which helps MNCs to help customers change their brand. It also talks about the discussion section that explains the details on how firms changed their strategy when they could not penetrate rural Indian market after realizing that they totally forgot about the local, social, and cultural factors which influence the purchase behavior of the people in rural emerging markets. Finally, the chapter provides some basic recommendations as to how firms need to think, act, and formulate the strategy, rural marketing campaigns, and how sales people need to build trust at a personal level using one-on-one contact points which helps firms successfully market their products. The content in the chapter also reflects my own personal experiences that I have noticed in terms of purchasing behavior of countryside people while I was working in rural countryside of the USA.

Introduction

The main intent of this chapter is to provide some basic understanding about the strategic marketing issues faced in emerging markets, what these issues really mean in the context of both developed nations and emerging markets; explain how some firms in different industries successfully managed to overcome these issues with a

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A. Adhikari (ed.), *Strategic Marketing Issues in Emerging Markets*,
https://doi.org/10.1007/978-981-10-6505-7_9

combination of business strategy, market orientation, and adopting local marketing practices instead of a common global approach; provide some insights into how these emerging markets are different in terms of challenges, location, people, cultural and social practices; finally, provide some recommendations about how to solve these issues, understanding the dynamics of each emerging market.

The reason why this is so important in the current times is the business markets are changing at a rapid pace than ever before. These developed nations are looking at emerging markets as the place for next 'Gold Rush' because these nations have around 60% of their population as 'Millennials,' 'Rising Income Levels' and the population in most of the developed nations are aging. This brings up an important point that most of the developed nations are looking at emerging markets as their 'Gold Mine' to sell their products. In the emerging markets, 70% of the population resides in 'Rural Areas.' So these demographics make it very crucial for the MNCs to come up with a strategic marketing plan in order to deliver value to the maximum population in the emerging markets.

Strategic Marketing Issue—Rural Marketing

Rural marketing is defined in similar lines as marketing which is creating, communicating, delivering a product to a set of target customers using a value proposition but in the context of rural people so that they can satisfy their needs and wants. Rural marketing has been prevailing since ages and the trend in the approach has changed drastically because of the digitization and technological innovations. Earlier during 80s, the communication channel for rural people is majorly done through radio. Most of the rural population are approached through radio announcements, be it regarding government initiatives, weather updates, and marketing of products through radio advertisements. Very few people in rural areas had access to televisions, so most of the advertisements and marketing campaigns are run using radio as a medium. The demand of consumer products in rural areas is entirely dependent on the yield of the crops which is in turn dependent on the weather. The other factors include the seasonal demand such as during festivals and social and cultural events; the demand is on the rise. As the per capita income in rural areas is very low, the way the rural population evaluates any product in terms of delivering the value is entirely different than how the urban population does it. In rural areas, we notice that people are very loyal to certain brands because of their trust on their quality and also the value that they deliver for the price they pay for. There will be lot of resistance to convert them to a different brand as they are consuming these products generation over generation. Marketing in rural areas needs a different set of mind-set, understanding of how rural people evaluate a product in terms of value they deliver w.r.t the price it is marked for. Pricing is another major aspect when we look at rural markets. With the technology slowly reaching certain rural areas, digitization of rural markets is in the rise. This means that most of the people in the rural areas have access to television, and access to mobile phone in the rural areas has also increased which might help these firms solve some of the connectivity and communication issues in order to market FMCG products.

Rural Marketing—In the Context of Developed Country

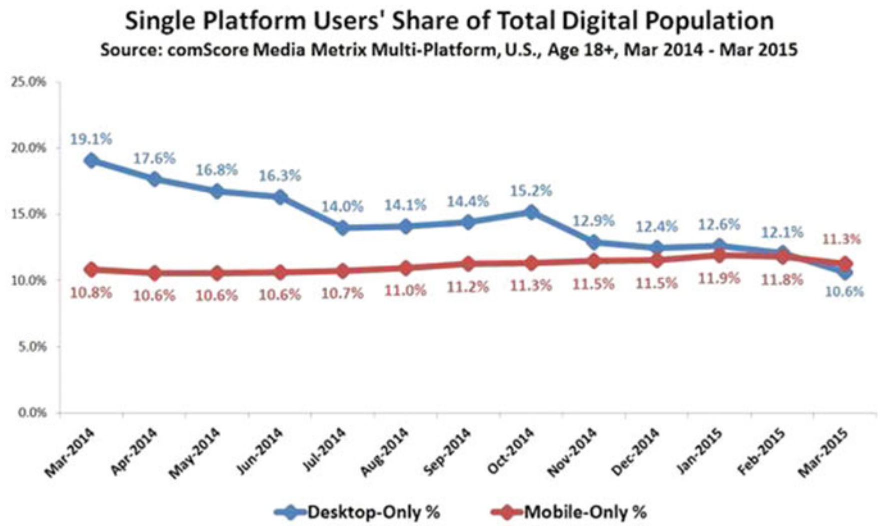
When considering rural market in the context of developed nations such as the USA, the picture is entirely different. The way rural marketing is handled in developed nations is slightly different than how it should be handled in emerging markets. According to recent statistics from the US Census Bureau, one person out of five people lives in rural America. This means there is a lot of potential for markets in rural areas as long as they are accessible, and consumers can afford the products and realize the value delivered to them. Let us consider these parameters and see how developed nations have been solving these problems and trying to capture these markets.

Access to Rural Areas

Accessibility to rural areas in the USA is somewhat better than emerging markets. Also the challenges pertaining to marketing in rural areas are slightly different because of the economic, social, cultural, and technological environment they are in. Accessibility is considered one of the major blockers in improving the lives of rural people. Hence, the Department of Transportation, the USA, has come up with GROW AMERICA ACT which will strengthen America's rural communities. This will not only improve the conditions that enhance access to these markets but also improve the safety of road transportation. In 2012, the rural roads have recorded 976.6 billion vehicle miles traveled on rural areas. This will have direct impact on the marketing campaign firms run either by directly getting into a partnership with rural stores or shops and also some online campaigns as well. In February 2013, the Bureau of Labor Statistics published a report that most of the rural population include homeowners. This means that the needs for this segment of people will be around health care, vehicles, groceries, and sporting goods such as fishing rods, hunting equipment.

Access to Information

Information accessibility is the key to reaching out to remote users or customers in rural areas. The Internet usage is seeing a different trend in the last 2 years. According to comScore report on the US market, Internet users on PC or desktop were around 19.1% when compared to Internet users in mobile-only devices. With the recent increase in advanced smart phone devices and its affordability in terms of price to majority of the people, the new trend is that mobile-only Internet users (11.3%) have surpassed PC-only Internet users (10.6%).



Internet access is a crucial element which empowers users to increase their purchase behavior in online business in rural areas. Although there is always a level of trust in rural areas when customers are buying products in brick and motor stores, marketing in rural areas using online digital media is more powerful and has direct impact on sales and customers can quickly make purchase decisions when offered deals such as free delivery, gift coupons, deep discounts along with clear return policy defined with appropriate pricing strategy.

Price Sensitivity

As the competition between the firms increases day by day, because of the increase in the coverage of broadband access to rural areas as mentioned in the previous section, the firm's marketing strategy will continue to evolve on a regular basis. Rural population are different in terms of their thinking, their consumption patterns, and their buying patterns. For example, some firms might have coupons, some might have free delivery, and some might have deep discounts to attract rural customers. So the way rural consumers think is which of these deals give them the biggest bang for the buck. Rural shoppers in most of the cases are not brand aware, and their behavior is mostly described as deal hunters. I lived in a small county called Burlington in WA State for around 6 months. The consumer behavior in that area is typically looked for coupons or best deals or maximum savings. So the malls and shopping centers used to focus their marketing efforts around coming up with ‘Big Discounts,’ ‘One plus One’ offers, etc. Consumers in those areas were shopping in ‘Dollar’ shops to fulfill their needs rather than buying in big retail chains like Walmart or Costco.

Value Proposition

Rural markets evaluate value proposition using attributes such as low price, savings on purchase, durability of a product, return policy, if it is a local brand to support local producers, any social benefit and if the product is being consumed over generations. In developed nations like the USA, they are preferring to adopt ‘Pull’ strategy than ‘Push’ strategy. With pull strategy, firms will build trust with the brand initially after which the journey for purchase starts. To adopt this approach, firms do a lot of research study in order to understand the needs and wants of rural consumers.

Rural Marketing—In the Context of Emerging Market

In this section, we will consider Indian rural market as an example and understand the factors that influence rural marketing strategy, things that firms need to keep in mind while coming up with the marketing strategy for emerging markets, and how to formulate their marketing campaigns to maximize their sales and ensure success in rural markets.

Creation of Unique Product

Let us consider the example of Kellogg’s breakfast cereals launched ‘Heart-to-Heart’ oats in 2010 in India. The company has immense experience in launching this product globally across 18 countries, and the launch in India was high profile combined with great marketing campaigns. Kellogg had to create a market for cereals as one of the items for breakfast as Indians mostly relied on other breakfast food items such as Dosa, Idli, Vada Pav. The product was treated as a novelty as the price factor is also high which did not promote repeat sales. One of the major reasons why the initial launch failed to generate repeat customers is it ignored critical cultural factors in India; for example, Indians drink hot milk with sugar, but cereal oats need to be consumed with cold milk which the people never preferred. Kellogg revised their strategy and came up with new unique product called ‘Frosties,’ i.e., sweet sugar coated flakes with changing in positioning strategy, i.e., from heart healthy to fun choice and also modified its branding and advertising approach localized to Indian market. Kellogg’s India, Bagrry, and PepsiCo Quaker are top three leading brands in India and capture 75% of the market.

Communication

One of the important ways to reach rural Indian market is how we communicate our product offerings which resonate with this target audience. The way Kellogg handled the communication is by understanding what is important to rural people, what they like, what they value in a product offering. The way they reached rural India is by changing their brand which most of the Indians are familiar with, for example, product with localized flavors and the brand name ‘shakti’ when selling products with iron. This change resonated with local people a lot, and they started recognizing the value. This communication change is a must-have whenever firms are thinking about emerging markets.

Distribution

There are a number of challenges when it comes to distribution of the products in rural India. As mentioned earlier, there are villages which are only connected by roads and there are villages which are connected by trains. This poses a challenge for the businesses in terms of coming up with a common distribution channel that works across the country. What I have noticed is rural population buys products in small quantities as the purchasing power is much less because the population composition in rural areas includes illiterates (farmers) which accounts to 44.76% and literates include 55.23%. The distribution of products needs to be customized and multiple product offerings need to be invented in order to increase repeat customers which suits different target customers.

Segmentation

While targeting rural population, one needs to understand the segment they are targeting, whether they are employed, self-employed, or unemployed, what are their habits in terms of the product usage, what they value in a product, the current product they are using, and what it takes to make them change their brand to your product. Once these factors are known, then the product, brand, campaign, value proposition can be modified to generate sales in the same way as Kellogg pursued their success.

Social and Cultural Aspects

Other aspects that are most important when considering emerging markets include the social and cultural factors that influence the purchasing behavior of the people. India is a diversified country where the local language may change when we go from one state to other state (multiple languages and multiple dialects), culture changes, the societal practices change, the beliefs may be entirely opposite when consider one state to other state. These factors will influence the purchasing behavior in these states as the people value these factors more and the trust builds with a brand when the product resonates with these values.

Discussion

Creation of Customized Product

For emerging markets, the requirements for creation of product are entirely different than for developed markets. Rural markets are driven by trust, loyalty, and price sensitivity. For example, if a product needs to be launched in rural India, probably firms need to understand what the customers in that area trust, to which brand are they loyal to and why apart from the pricing details. When cereal oats was launched initially in India, the product did not reach Indian customers to the extent that it supposed to be. Few reasons include awareness, the breakfast food Indians consume is entirely different, and the taste factor which the local consumers are used to is missing. Hence, they had to customize oats to masala oats to fit to Indian taste needs but still the pricing factor is a big game changer. To fit to the rural markets in India, firms need to have a customized product suitable specifically for these markets which serves needs of the people in this area.

Recommendations

Looking at the above differences, challenges, and segmentation issues, below are some recommendation based on the success stories. Firms need to think differently in terms of rural marketing. The strategy should reflect the mind-set of rural people in order for them to be successful. Few things that need to be followed include the shift from product-based mind-set to market-based mind-set, rural marketing strategy should consider local or regional customs, traditions in mind and finally the marketing campaigns should stress on some keywords such as trust, quality, and value for money aspects which resonates best in rural population.

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Chapter 10
New Product Strategy/Innovation: Challenges and Opportunities in Emerging Market

Manoj Srivastava

Abstract Developing new products in emerging market is a challenge due to several factors like understanding customer behavior, availability of finance for R&D activities, lack of resource with right skills and credible consumer data. This chapter focuses on the challenges and opportunities in emerging markets for new product development and product innovation.

Introduction

Emerging markets can be defined in terms of absolute economic development indicated by average per capita income or by pace of economic growth and industrialization indicated by GDP growth rate and level of industrial activity, respectively, or by market governance mechanism—moving toward economic liberalization from closed economy. So Emerging Markets are low income rapid growing countries or transitional economies which are opening their economies through more liberalization.

A product is a combination of one or more of the following:

- Constituents
- Features and functionality
- Performance
- Business model
- Usage and consumption experience.

Innovations that result in new products and services as defined are called "product innovation." For product innovation to succeed marketing, R&D, manufacturing, and finance should work as one cross-functional team. Product innovation or new product development is required by firms to capture new markets, match up with changes in technology, to cope with change in tastes and preferences

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A. Adhikari (ed.), *Strategic Marketing Issues in Emerging Markets*,
https://doi.org/10.1007/978-981-10-6505-7_10

of consumers, and unique needs to customers. This study focuses on the challenges and opportunities in emerging markets in terms of new product development and product innovation.

Issue and Relevance

The issue of new product innovation and strategy is very relevant for emerging market as the needs of the consumers in the emerging markets are very different from the developed market consumers. There have been several failure stories when products or services developed by multinational enterprises have been directly applied to the emerging markets without localization and customization leading to erosion of brand value. The issue is far more relevant when it comes to technology products, automobiles or food and beverages. This has led to multinational enterprises make significant investment in emerging countries to establish R&D centers for these markets which customize the products to meet the emerging market needs.

Issue of new product strategy is also relevant in terms of unique customer requirements and price sensitivity of the market. The companies need to decide whether to redesign the existing product to make it cheaper and still meeting customer need and quality expectation or to creating new products or services from scratch for the emerging market. To have a successful new product strategy in emerging is immensely important as these markets are growing at a much faster rate, but they differ from developed economies in several ways:

- Consumer behavior
- Technology usage of consumers
- Unique tastes and preferences of consumers
- Different purchase decision-making process
- High-price/performance expectation.

It is difficult to design a new product for emerging markets as there is lack of consumer data on credit history and consumption.

How Is It Different in Emerging Market

Emerging markets are characterized by specific local needs, high-price sensitivity, and limited purchasing power (Prahalad and Lieberthal 2003). Khanna and Palepu (1997) have suggested that in emerging economies, firms may have to create their own infrastructure to make up for the absence of well-developed markets for labor and capital. As clear from the above characterization of emerging markets, there are several different factors which influence the strategic initiatives like new product development in the emerging markets compared to those in developed markets. The challenges faced by both local companies and multinational enterprises to do product development in emerging markets are as under:

- Lack of reliable consumer data—credit history, consumption pattern
- Lack of availability of resources with right skill and capabilities
- Limited new product design experience with scarce resources
- Lack strong qualified vendors
- Large financial investments in R&D and Engineering
- Lack of awareness of intellectual property protection.

Besides the above-mentioned challenges, a lot of emerging market companies face challenge of improving or maintaining product and process quality, adding new product features, and maintaining low cost at the same time. Due to purchasing power limitation and high sensitivity to price, the actual market size in the emerging market may not be same as the raw market size, and this also results in market segmentation issues.

Emerging markets are very different from developed economies in the social/cultural, legal, political, technological, and economic environment. Political system of the country affects its product, labor, and capital markets, for example workers can form independent trade unions or not. The foreign investments in the emerging markets are impacted if there are conflicts between ethnic, regional, and linguistic groups in the country. Some emerging markets are more open allowing direct foreign investment while others may allow investment only through joint ventures and alliance. In emerging markets, there is unequal distribution of wealth which implies higher growth rate of middle class than GDP. Consumers are less informed, and brands are still aspirational. All the environmental factors also impact the new product development strategies in the emerging market.

Though the emerging markets have opened their economies, there are still issues of getting reliable information about the consumers like credit histories. This makes product development harder say for consumer finance. Market research is at initial stage of development in emerging market as there is no database available on consumer consumption patterns which can allow the companies to segment the consumers. The mechanism of government bodies or independent publications providing expert opinion on the features and quality of products like consumer reports are very few in emerging markets. All this makes it difficult to develop product for emerging market as it is difficult to understand the consumers real needs, spending pattern, consumption patterns, buying power, etc.

Strategies of New Product Innovation in Emerging Markets

The conventional strategic marketing theories and frameworks need to be relooked when applied to emerging markets. Several emerging market companies and multinational enterprises have applied different strategies to overcome emerging market challenges.

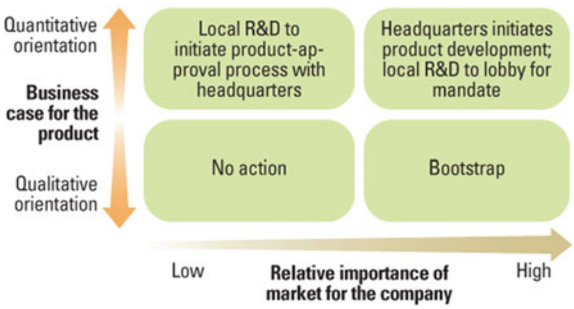
While creating new product strategy for emerging market, one has to consider the following things:

- *Price/Performance*: Emerging markets are highly price sensitive, and large volume markets and consumers are high expectation of price/performance. To be successful in emerging market, the marketing and engineering team need to work together to understand the local market needs and come up with correct price point product.
- *Simplicity of Use/Maintenance of Products*: Most of the consumers in emerging markets want easy to use products which are localized. The products should be easy to maintain.
- *Technology Disruption*: The emerging markets leapfrog with respect to technology changes compared to developed countries. The organizations need to evaluate their product portfolio to identify the product market fit and opportunities of new product development.
- *Local Manufacturing and Marketing*: For products to affordable to large section of population of emerging markets, they should be manufactured either locally or in an emerging country where cost of manufacturing is low. The marketing teams should be in touch with local market to understand the customer needs better. Companies should invest in developing vendors who can meet the global quality and manufacturability standards
- *Local Distribution, Sales and Service*: Both multinational and emerging market companies should invest in developing their distribution networks so that they can access the remote regions of the emerging markets. The products should be designed in such a way that they can be serviced easily. The service of the product could be a differentiator for success of new products.

The new product strategy for emerging markets will also depend on the demand for new products and how new products can be "*value engineered*" to give higher value for money to value-conscious segment. This may also require multitier product policy in the early product life cycle.

One of the strategies used by the multinational enterprises is to setup R&D facilities in emerging markets like India, China, Brazil. This model has successfully worked for technology companies like GE which has a large technology R&D center in India and Brazil. They are able to create product specific for the India market in healthcare domain. Cisco is another example which has large R&D center in India which is at an equal footing as their headquarters in San Jose California.

Following is the framework used by CISCO for successfully deciding on product development in and for emerging market:



Using this framework, the managers of subsidiary of multinational firm can decide how to take an idea for a new product further and should consider two important aspects: (1) is the new idea a business case for improving the features and quality of product/service or is it about reducing the cost of product/service; and (2) how important is the local subsidiary geographical market to the parent company in the overall all strategy of gaining new market share.

Since emerging markets with large middle-class population are very attractive market, a lot of enterprises are also trying out several innovation methodologies to produce good quality products which meet the customer expectation in lower cost. Some of them are described below:

- *Cost Innovation*: In this case, the cost of manufacturing the product is brought down, but the functionality of the product is kept intact. This strategy is followed by several multinational companies by moving manufacturing to China and India where the labor cost is low, taking the advantage of labor arbitrage
- *Good Enough Innovation*: In this strategy, companies not only bring down the cost of the product by lowering the manufacturing the cost, the product's cost are further reduced by re-engineering the product to meet the emerging market customers' need. This is done through de-featuring or adding some specific feature for emerging markets. The best example of this strategy is the ground clearance feature improved by all Japanese and American car manufactures for India
- *Frugal Innovation*: Frugal innovation is about creating new products for resource constraints markets. The best example for this case is the portable ultrasound machine developed by GE for India.
- *Grassroots Innovation*: Grassroots innovations involve innovative problem-solving with scarce resources. These innovations keep in mind the social and ecological impacts of product, and hence, products created through this process do not cause any adverse social or ecological concerns. The knowledge sharing at rural inventor level is done through a knowledge network which connects inventors at the bottom of pyramid. In India, we have several examples of rural innovations like using modifying a cycle in a way that it can be peddled across the river, generating electricity using peddling of cycle, etc.
- *Indigenous innovation*: Indigenous innovation involves technology transfer from the developed countries to emerging markets; this could be in form of direct technology transfer at the enterprise level or multinational organization establishing their own R&D units in emerging markets. The example in this case of India is: Honda doing the technology transfer to Hero Motor Corporation Ltd or several multinationals like GE, Samsung, and Cisco establishing R&D units in India.

Some of these product innovations being done by companies both multinational and emerging markets are being applied across the world. This phenomenon is called "*Reverse Innovation*" as the innovation done in emerging markets are now making their way to developed markets.

The measure of successful new product strategy/innovation is return of investment in innovation. The increase in brand equity, revenues, profits, and market capitalization that innovation will bring relative to spending for innovation will give the return of investment.

Other measurement of successful new product strategy could be on cost reduction, increase in product accessibility to consumers and perceived quality improvement by consumers.

Conclusion

The business opportunities of emerging markets are large due to large population of middle class with more disposal income, estimated at $18 USD trillion in 2004. To capture the market, firms need to come with new product strategy/innovation. It is not easy to leverage full commercial potential of the emerging markets as the markets are not fully developed and lack in terms of institution infrastructures, availability of reliable customer data, awareness of intellectual rights protection, availability of right skilled resources and qualified vendors. To have a successful new product strategy in emerging markets, both the multinational and emerging market firms should have the following:

- Re-evaluate the value proposition so that there is correct product–market fitment with respect to both features and price.
- Localize the product or create new product for emerging market needs so that large segment of customers can be satisfied.
- Establish R&D in the emerging markets with both long-term and medium-term goals.
- Develop local partners/vendors and help them to improve their product design and development capabilities. At later stage, product development of components can be sub-contracted to these partners/vendors.
- Develop and retain top talent in the emerging markets.
- Develop excellent supply chain and distribution channels so that large part of market is accessible.

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Chapter 11
Strategic Marketing Opportunities in Higher Education in India

Chandan Kumar Mishra

Abstract In ancient Indian history, education had been a path to destination, whereas in the present scenario, the world is considering education as an opportunity to reach the ladder of success. Wisdom was the sole purpose to walk on for Ashram where child since its early life use to learn, whereas presently its been treated as a path to earn. Structural changes in society have led to witness a dramatic shift of education system due to massive changes in policy, governance. Environmental changes comprising privatisation, decentralisation, diversification and internationalisation are seen as controlling forces for influencing higher education system. Intense global competition with wide opening of national boundaries and broaden access, stagnancy of public fund and trends seen globally towards privatisation of education revenues are the important driving factors in creating a new platform for higher educations. These transformations are promoting government and institutional pioneers to examine education systems in their regime, and institutions that make them up providing reforms in meeting national needs are addressed which would be a catalyst in national development as seen by present leaders. Education is the seed for national growth.

Introduction

Considering marketing in education, we normally express few of our general questionnaire like: "what is the differential factor for our school, college or university?", "knowing and identifying customer base and what is their need?" and "how can we be superior in providing better education adopting up-to-mark education standards as compared to others prevailing nearby?". These are general questionnaire to understand and deceptively simple, and even the specific understanding of "who is the customer" requires little consideration. There are several definitions of marketing, and it gets unified with the societal changes and adopts

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A. Adhikari (ed.), *Strategic Marketing Issues in Emerging Markets*,
https://doi.org/10.1007/978-981-10-6505-7_11

prevailing mode which suits consumer herein students, and these marketing views are always been reviewed constantly. One of the examples is that marketing is an adoption of social process wherein service buyers, be it individuals or organisations, get what they are willing as per their need and want by defining value, delivering it and exchanging it with each other. This generates core concepts of marketing which include demand, market, product, need, exchange, want, satisfaction, communication and value.

With the digital era prevailing in India, challenges and opportunities in the higher education sector are also circumscribed by advanced technology. Shift to e-learning and with the introduction of various industry-relevant courses such as cloud analytics, mobile application development has brought bigger scope in higher educational system. The technological advancement and shrinking national boundaries in transferring educational reach have increased possibility of marketing accompanied by branded educational courses and institutions. Education being a service industry encompasses certain implications for marketing. Due to its intangible form, branding for education is based on the "individual capacity" and "institutions employability". Through below study, we have tried to create understanding for different opportunities with the higher education system and prevailing issues to be dealt through analysis and various concepts.

Education System and Scenario in India

Source Original, Author Chandan Kr Mishra

In ancient India, gurus were the faces of education and were placed in position due to its higher individual capacity during the era belonging to Mahabharata, Ramayana which are the best examples of guru–shishya where renowned names are known. During this period, students were sent for learning and developing their skill fundamental to their castes. However, presently a good education system is fundamental to the people of India and it is of paramount importance to reflect on our present education system, be it professional courses or traditional one which would pave India to meet international standards with incorporating sustainable changes in it.

Presently, education system in India follows 10 + 2 + 3 pattern of education. In 2009, Tamil Nadu and Himachal Pradesh from India participated in the international PISA exams, and this is been administered once in every 3 years. But both of states from India ranked in bottom below the average OECD countries. As the report speaks for higher education in India, issues related to extension, comprehensiveness, quality are measured in terms of GER from 0.7% in 1950—1.4% in 1960—11% in 2006—20% in 2012.

Present Education in India

Indian Education Departments—presently, the HRD ministry has two governing department to promote and formulate policies for modern education in India.

1. Department of Pre-School Education—Primary education both formal and non-formal is been governed looking after basic educational requirements. Child education is given prime importance, and high amount of government funds are allotted to promote primary education. Guidelines are promoted from time to time by governments for its ground implementations. However, the quality of teachers and their credentials are not up to the mark for government's schools which is a major hindrance for primary developments of basic knowledge to students at these schools.

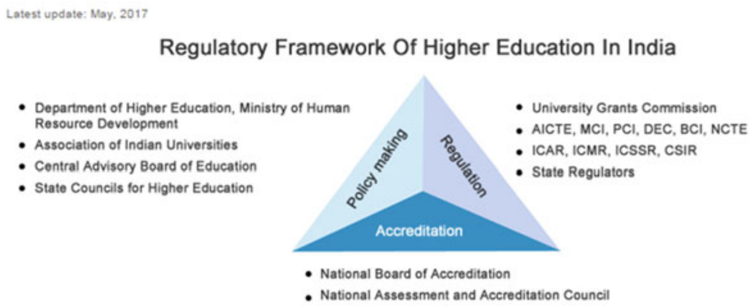
2. Department of Higher Secondary Education—This department works on to modernise education system of secondary and post-secondary education system in India. This department on the basis of predefined requirements and principles grants the status of "Deemed University" to educational institutions on the advice of the UGC—educational governing bodies of India. The undergraduate and postgraduate system in India gives maximum opportunities to the students to pursue their dream job. The courses and specialisation subject the one who opt, is deciding the future of the student in normal cases, but still in the country, students are facing issues with their curriculum to build enough capabilities to mould the student to join the organizations with full of confidence.

Higher Education—An Overview

In the present system of education in the country, human capital keeps on increasing in a phased manner. Every year, educational institutions are introducing different courses focussing on specialization in the key areas which in turn result in the respective industries to perform better. There are finishing schools associated with the professional colleges which mould students to think and act better in the placements. But the present system of education may restrict students to think or perform out of the box. Presently, there are some forms of education been prevailed in our Indian culture which blindly imposes upon young minds to restrict their ideas and make them learn blindly without understanding; this type of education is rather shrinking young minds and is harmful than advantageous. The purpose of education for an individual is to give wisdom of knowledge and think bigger and better. This faulty education system will do more harm than doing well in development respect.

Undergraduate Stage—Undergraduate education known as higher education in India is of 3–5 years duration in every state. These courses normally begin at an age of 18 years for an individual and are provided by colleges. There are different streams segmented for 3–5 years, e.g., courses like arts, science, humanities, commerce are of 3 years, whereas science, engineering, agriculture are of 4 years, and architecture, medical, law are of normally 5 years.

Postgraduate Stage—Postgraduate education also known as master's course or doctorate courses are of normally 2–3 years in India. PG courses are run by different universities in India, and it largely caters specialization to a specific field and is preferable to carry several researches. The number of enrolments for PG courses reduced to a larger extent, and it gets diverted to global doors due to poor facilities and infrastructure in India. PG courses are the highest mode of learning stage in India.



Source Indian Brand Equity Foundation report, May 2017

Graduation Market in India

Chart of India as per Census 2001:

Degree	Holders
Total	37,670,136
PG degree other than professional degree	6,949,708
Graduation degree other than professional degree	25,666,045

(continued)

(continued)

Degree	Holders
Engineering degree	2,588,410
Academic	1,547,670
Medical	768,970
Agricultural and dairy	100,130
Veterinary	99,998
Other	22,589

Source Wikipedia

Higher Education in Developed Countries, Canada

Countries like Canada, an international accredited country for higher education where most of students all across the world visit this country for higher education, has effectively implemented following marketing strategies for promoting higher education:

The marketing concept reaches an edge by adopting a suitable strategy by the institutions to understand student needs through programmatic solutions and new services. Few adaptive futuristic ways to be practised includes:

- "Post-click" personalisation: Web algorithm software and analytics available to understand the need of prospective student before these prospects fill out any such enquiry forms for respective institutions. This helps institution to anticipate the requirement.
- Real-time, data-informed decision-making: Respective departments are equipped with technology and experts who derive real-time analysis for the data captured through its state-of-the-art software and derive pivot results for ongoing activities.
- Mobile-ready marketing: Branding of the institutions along with framing proper communication and developing interactive elements fully functional on mobile devices is used to propagate respective theme and agenda of the institutions. These help marketers to plan their activities.
- Marketing through graduation: Institutions use past and prevailing student data to guide marketing decisions in several ways. Defined processes are implemented to align staff to produce effective information which could be utilised throughout tenure.

- Know what you don't know: To have competitive advantage, individual capacity enhancement is carried out to respond quickly to changes and draft new approaches to transformations.

The baseline of future of higher education marketing is the optimum utilisation of resources through the application of data to ongoing decision-making to ensure proper listening to current and future students and properly meet their expectations of need.

Top Ten Strategies by Institution in Canada

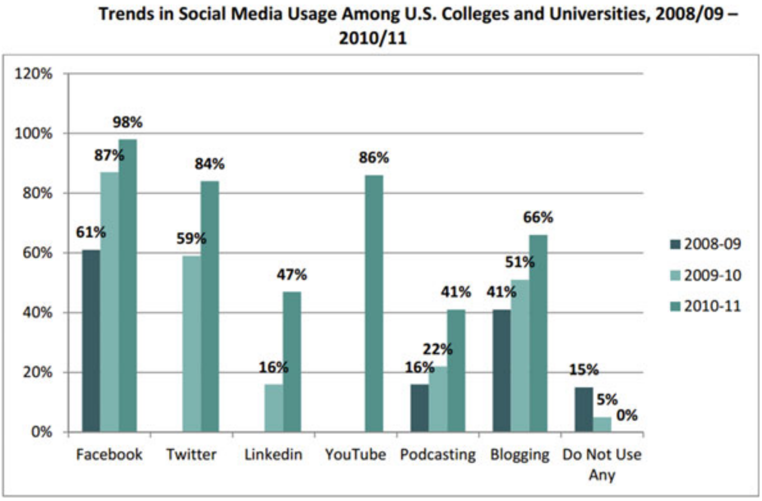
Rank	Four-Year Private	Four-Year Public
1	Campus open house events	Campus open house events
2	Campus visit days for high school students	Campus visit days for high school students
3	Encouraging prospective students to apply on the admissions website	Encouraging prospective students to apply on the admissions website
4	Encouraging prospective students to schedule campus visits on the admissions website	Weekend visits for high school students
5	Using enrolled students in marketing/recruiting	Encouraging prospective students to schedule campus visits on the admissions website
6	Weekend visits for high school students	Community College articulation agreements
7	Routine contacts by admissions office professional staff to assess student reactions to financial aid awards	Campus visit events designed for school counselors
8	Campus visit events designed for school counselors	Using enrolled students in recruitment/marketing
9	Tele-counseling program to coordinate continuous , regularly scheduled flows of phone calls at a high volume	College-paid trips to campus for prospective students
10	High school visits by admission representatives to primary markets	Off campus group meetings for prospective students and/or their parents

Source Hanover research

Other activities of marketing for promoting in higher education include:

a. Radio advertisements and voice calls sent to database asking alumni and available students for new applicant referral, etc.
b. Running television advertisements.
c. Direct mail, texting to written and available contacts.

Many of the renowned institutions have been conducting surveys to understand usage of social media in brand promotion and marketing strategy for higher education. In surveys, some of the specific platforms are used; the highlighted segments are shown in below graph:



Source Hanover research

Trends show a leap jump in promoting social platform in brand building and public awareness for education with institution being specific.

Higher education has also been promoted through online platform. Online platform has evolved itself to highest degree and emerged as a platform for globally acknowledged branding. Changing trends in global scenario and demand or various learning through new courses are met through distance-mode/integrated learning for many existing professionals of various ages. Online learning has gained popularity owing to its boundaryless features of adapting students from each and every corner of the world. These educational strategies include new delivery methods, means of employing technological advancement in teaching.

- **Flipped Learning**: As the name denotes, model in which homework and lecture elements of a course in a classroom-pattern learning are reversed and more of active learning is practised through classroom engagement than to rely on passive study.
- **Gamification Learning**: This trend is now most liked by new students in their early stage in which learning is framed into gaming model and placed on learning platforms. This is one of most acceptable engagement learning concept. The more the engagement in learning, better is the absorbing capacity developed for students which help to put student's brains perform task, thereby involving brain rather than dictating brain.
  Involving learners in active learning environment.
  Raising motivation.
  Improving skills for solving problems.

a. **Adaptive Learning**: More personalised way of online learning is a recent development in the section for higher education in developed countries where individual interest and previous viewing habits are captured by the platform and educate the way the individual wants to pursue with the interest area identification. The platform concept has been worked in similar to the algorithm what Google, Facebook, Netflix uses to understand viewers mind. The result out of these algorithms develops a personalised pathway for learners take on over the programme.

Online Courses Available from Institutions in the "Top 100 Academic Ranking of World Universities (ARWU), 2013"

Ranking	Institution	Online Courses By Availability		
		Continuing & Executive Education	MOOC/Open Courses	"Traditional" Online Courses
1	Harvard University	Yes	Yes	No
2	Stanford University	Yes	Yes	No
5	University of Cambridge	Yes	No	No
10	University of Oxford	Yes	No	No
20	Swiss Federal Institute of Technology	Yes	Yes	No
21	The University of Tokyo	No	Yes	No
28	University of Toronto	Yes	Yes	Yes
42	University of Copenhagen	No	Yes	Yes*
61	University of Munich	No	Yes	No
85	Ghent University	No	No	No

Source Hanover research

Marketing Strategy for Higher Studies

With the onset of widespread adoption of social platform and other marketing avenues, survey says less than half of admission officers have written clarification on social media adherence policy nor completely aware about the outcomes of such data. It is also found that more than 15% of officers do not even know about the existence of such media policies existed at their institutions. While integrating brand strategy based on researches into strategic planning, normally institutions tend to eliminate disconnect between policy and action, which enables implementation of data-driven market findings. This helps institutions to create brand awareness and positive desirable image creation among the students, parents, faculty members, staff, alumni and other stakeholders.

A long-term approach for institutional marketing success are:

- Brand performance has to be elevated across the education landscape by surveying brand awareness and its perception.
- Message communication and frequency have to be maximised with understanding communications concepts.
- Brand/Campaign performance has to be gauged periodically to validate marketing spend and mark to mark conversion rates between applicant-to student.
- Branding requires "patient and rigorous effort", and it depends heavily on timing.
- Institution should particularly keep promises in terms of education quality and deliverable commitments.
- Consistency has to be maintained for stated goals, positioning, identity, communications and strategy.
- Leveraging multiple angles should be done to maximise institutions brand growth.

Challenges

Higher Education Sector in India

India needs to make relentless efforts to address following challenges to create a suitable environment for education. Presently, private sector contributes 59% enrolments for higher education in form of providing service through institutions so that student gets a degree and subsequently a dream job. These institutions carry large number of industry-relevant courses and so attracts large number of students, but quality of adopted technology what is required is missing for these institutions, which is a crucial challenge to overcome to enable institutions and students to be innovative and flexible in their learning and approach towards higher education.

Financial constraint is another challenge, and key parameter for the governments to judge quality of education is expenditure on education and related institutions infrastructure. Governments cold attribute on 20–30% funds from their annual budget to education, although foreign investment has been promoted but various government prevailing policies are a major hindrance for smooth flow of direct foreign investments in education. India also faces challenges on quality of teaching and respective teachers who normally follow traditional method focussing more on theoretical session and less on practical exposure which causes hindrance to learning practices. Lower levels of teaching quality and lack of novel teaching aids for teachers put India in education standards far behind than institutions of higher education in the west.

Higher Education in Developed Countries

Operating in Global Market: Tuition fees from international students contribute significantly to sector's top line which demands incorporation of globally accredited outlook into their current reforms and strategy in a way which stretches both domestic approaches and enhances brand acceptability. It is to get institutions meet increasingly international context in their operating sector.

Rising Student Expectations: With higher tuition fee cap for students, expectation of them demands more beneficial returns on investment in terms of academic quality, opportunity of employability, institutions facility.

Increasing Cost and Shifting Funds: With rising student expectations due to higher financial load been absorbed for educations, institutions need to increase investments on infrastructure, teaching and staff quality to increase student's interest.

Demand and Need for New Technologies: Integrated and process-oriented aligned IT systems are required for aligned and more cost-effective administrative process.

Linking Estates, Student and Strategy: Changing means of learning leads to varied demands in education sector. The sector has to ensure continuing their space, and their means of strategy is aligned to principles. Example: shifting large lecture room delivering single-mode learning to more synergic workspaces.

Attractive and Retaining the Best Talent: With the competitive scenario, best talent to be utilised from corporate world for management functions, which should align additional perks on performance basis and develop a university's culture.

Making Research Sustainable: To grow in research multifacets, funding has to be opted working with new organisations to diversify the money usage for undergoing researches.

Opportunities

Higher education in India

Prominent business firms are showing interest in higher education as one of the business opportunities, and many such educational start-ups can be planned. A strategic collaboration can be planned between education and entrepreneurship. Enhancing employability of graduates, private institutions liasoning with international organisations will allow much improvement in the quality and quantity of professional courses as per current industry demands. Corporate graduates in management of these developed institutions will manage wide range of transferable skills and vocational courses engaging investors with the Indian education market.

Digital learning capacity can be enhanced by offering online and blended learning, instructional design, teacher and management development through foreign institution's collaboration. Digital India drive is paving improved technology and its necessity in creating greater opportunities in higher education for streamlined learning to enhance preparedness for the entry-level graduates.

Practical knowledge of learning is demanded in educational market which is possible through strong integration of knowledge with co-curricular initiatives;

these days theoretical knowledge is praised only if its practical application is applied to real-world situations. Multi-talented teacher and students are requisite for industry. Workshop, seminars, industrial training, internship, etc. are good and fruitful opportunities for of higher education.

B2B Opportunities

Education system in the Indian scenario looks very lucrative so as so many institutions get into the education field, hence the tough competition they are facing each other. Especially in the last 10 years, growth in this sector is massive. Along with this, the opportunity to offer the b2b offerings is also better off in the last few years. How they can differentiate with each other makes the probability of the success; in other words, the next-year admissions will show the results of the same.

There are enormous opportunities in the field because the education always has their own value. In a country like India, people give high impotence to their kid's education, especially higher education. The government is also working hard to make the students learn and contribute to the nation back.

Application of Marketing to Higher Education

Higher education is a kind of service provided to group of students who are keen to learn and show passion for doing something innovative to build individual career. In line to this, several institutions and degree colleges are applying marketing applications and marketing principles to gain edge on others through its competitive advantage methodology.

In higher education, targeted markets include all stakeholders and consider students as principle consumers. Other stakeholders comprising society, government, employers, parents get benefitted through results of the students. Thus, we understand that the principle of targeting and market segmentation stands true in higher education for primary consumers but not totally for all stakeholders.

Branding includes positioning statement for higher education of a college/university that should describe, be unique and give an edge over competitors; this must have impactful appeal among the institutions' target segment. The branding been promoted by institution must be lived on and to be practised which is most difficult process of branding. The board members and internal customers have to be discussed and reach to consensus for positioning statement. Deliverables of the institutions are been replicated by the positioning statement, and it is to be adapted judiciously.

A key driver of Indian's future prosperity in higher education outlining strategies for marketing includes:

Prioritizing Specific Markets: Nations to be identified and focussed for prioritizing specific marketing strategy.

Extending Indian Brand to Abroad: Indian education to be promoted along with building national brand to attract international students. As country is selected first by any international students before prioritising institutions.

Employing a Sophisticated Digital Communication System: Testimonials with some video on social platform depicting international students studying and the leverage they are getting out of these studies along with their achievements and success.

Higher Education Branding Principles

In the last decade, education sector has made a remarkable reformation owing to the growing demand and opportunities along with application of marketing and branding principles, which has led prevailing institutions to adopt fundamental principles of branding.

- Making—brand promising.
- Enabling—brand promise.
- Delivering—brand promise.

Above are the fundamentals of branding higher education which enables an institution to grow and provide to capture the consumer attention on the strengths. While delivering above fundamentals, below 5M's of the branding and positioning are to borne:

Mission—should match with broad sense of objective.

Media—effective communication to be used in message delivering.

Message—drafted to emphasise the desired deliverable.

Money—resource identification to ensure successful implementation.

Measurement—efforts for brand promotion.

Success of branding on education largely depends on the degree to which above 5M's principle is practised and sincerely adhered.

Value Proposition—Customer

Value proposition is the composite package an individual offer against service rendered to create a factor of delight after making a purchase for goods or services in relation to what must give up to receive them.

Customer Value Proposition for Higher Education

A customer value proposition is a propaganda of business or marketing which depicts and defines a composition of methodology why a customer will buy a product/service. It is specifically designed and drafted towards potential customers, preferably no other constituent groups, such as employees, suppliers.

- Highest quality pedagogy of education to learner/students.
- Provide educational guidance and mentoring along with academic courses—an act of providing more than promised.
- Reasonable fees without compromising on the deliverable quality of education.
- Students to be placed in thought as priority while formation of acts or policies in educational system.

SWOT Analysis for Institutions Providing Higher Education

Strengths	Weakness
1. Only few globally acknowledged renowned institutions 2. Increasing earning capacity of middle-class society 3. Growth of Indian economy leading to numerous opportunities of new employment 4. Higher demand of Indian scholars and researchers in overseas market	1. Poor infrastructure 2. Lack of adequate properly trained faculty to capitalise increased demand 3. Regional variance 4. “Non-profit” quote in formal education 5. Highly challenged and unclear structure at state and central level
Opportunities	**Threats**
1. Higher demand for improved and quality world-class education 2. Less gross enrolment ratio of 15% in higher education as compared to 84% in the USA 3. Sharp decline in dependency ratio predicted in the next 30 years 4. India to emerge as a global space in education for APAC (Asia-Pacific countries) 5. Poor R&D in academic researches	1. Higher time gap absorbed in introduction of reforms due to varied reason 2. Over-regulated mechanism on course curriculum, entrance tests

Value Elements

- Time-saving: As the students are able to get coaching along with their higher education, they do not need to spend any extra time to learn these skills.
- Improved placements: As the students are developing the required skills to clear the interview through these programmes, the chances of getting placed are higher.
- Improved admissions: Students will prefer to study in the institutions where they get better placements. So, we can say that offering additional coaching will improve the admissions.

Recommendations

Research strategy to be set up in accordance to university's mission and profile.

- An increase in public resources aligned to institution-based basic scientific research, with funding planned through nation-wide competition. Continual support to be ensured through national programme to form centres of excellence institution. Bulk amount of R&D funding to be provided by the government with a vision to edge education system with a standard rise in academic perks to excel research innovation and capacity.
- Create additional performance-based perks for staff, such as the reward for achievements through higher ammunitions or promotions to overcome the poor motivation level of the academic members and staffs.
- Promote new research assistants/lecturers/Ph.D.s expecting to enter academic positions through close working on human resources and strategy to attract more numbers of quality human capitals in academic field.
- Mobility schemes to be drafted and implemented for academic and research staff along with increasing support for prevailing programmes involving existing Ph.D. students/researchers available at national level and through bilateral understanding between universities.
- Encompass performance of researches and scrutinise interaction among diversified university units via running quality assurance programmes and engaging external agencies to maintain relevancy and interdisciplinary in researches.

Conclusion

Aptitude and soft skill training industry has a lot of business opportunities. We require innovative start-up to support the higher education sector in India. If these kinds of institutions understand what is really required to make the students employable and deliver the value with commitment to customers, then there will be a lot of demand for the same. The frame of higher education has been placed in greater outlook in society than before and has formulated itself into major strategic concern which has to be considered as a catalyst for defining who, what, desirable and derivatives from institution. Branding also defines and aligns derivatives, frame of the institution with streamlining the institution around a common path and vision. An edge and differential factor with others are the basis of success in the market.

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Chapter 12
Strategic Market Segmentation in the Dynamic Emerging Markets

Mallikarjuna Rao Veluru

Abstract The whole effort of marketing, explained in CCDVTP mantra (London Business Forum 2008) by Philip Kotler, is directed at a target market to achieve profit. It is like launching a spacecraft. The space mission becomes meaningless in the absence of a launch pad; similarly, the marketing mission has no meaning in the absence of the launch pad of market segmentation. Market segmentation in emerging markets is the challenge of erecting a launch pad on terrain with dynamic contours, overcome by only using proper strategy. To evolve a strategy for segmenting the emerging markets, it is imperative to analyze what forces operate and what issues dominate in the gameplay. This chapter sees through the strategy lens, the issues, that challenge the business acumen of a successful enterprise, to segment an emerging market, and attempts to recommend appropriate methods for a profitable segmentation.

Introduction

This chapter traces the evolution of market segmentation over the time into a function of strategic importance. The chapter then discusses the market segmentation in the context of the developed country, taking cognizance of the political, economic, social, technological, legal, and ecological environment prevailing there and its impact on *strategic market segmentation*. The challenge of market segmentation in the context of dynamic emerging market is then studied with respect to the same PESTLE environment, with an attempt to compare and contrast with the developed country scenario, along with its impact on *strategic market segmentation*. An attempt then is made to find some solution for effective market segmentation in dynamic emerging market, based on the real emerging market environment. Market segmentation in an emerging market is strategic because of

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A. Adhikari (ed.), *Strategic Marketing Issues in Emerging Markets*,
https://doi.org/10.1007/978-981-10-6505-7_12

uncertainty, instability, and volatility of environment and presence of institutional voids, and hence, the present chapter assumes paramount importance, since the success of any business rests on a single pivot of the right market segmentation, targeting and positioning of offerings, failing which businesses are bound to doom.

Strategic Market Segmentation

Antecedents

Industrial revolution in Europe heralded a new era in progressive evolution of a market. Previously, the goods/products that were in use were hand-made and primarily satisfied the needs of the people world over. There was no separate identity for 'marketing' activity since it was not necessary. The rise of the machines led to the mechanization of production, which necessitated thought in the direction of marketing.

The orientation toward the marketplace[1] by the firms progressed as follows.

Production concept era where market segmentation was not much relevant, *product concept* era in which market segmentation based on the customer needs that are satisfied by the product, *selling concept* era in which market segmentation aimed at the expansion of the market by aggressive selling efforts, *marketing concept* era of mid-1950s in which market segmentation matured into a structured mechanism, and discrete segments were identified to offer value through products either to one or many segments simultaneously and *holistic marketing concept* era where segmentation underwent a change of predefined framework. Segmentation varies widely depending on the marketing activity/program in the question.

Business Aspect

Market segmentation has been the primary tool in penetration and expansion of the market in a scientific manner. Segmentation aided in reaching out to the masses, creation of value to the customers, customer-centric product creation, communication of brand value to the customers, and enhancement of business potential of the organizations.

[1]Kotler and Keller (2012).

Marketing Aspect

Market segmentation cleared the mist of the markets and showed the way for a focused and structured approach to market products and services by organizations. This was responsible for effective targeting and positioning of the products and services which improved the performance of the organizations.

Previous Research

According to business historian Richard S. Tedlow, the evolution of market segmentation[2] happened in *four* stages, namely *fragmentation, unification/mass marketing, segmentation, and hyper-segmentation*.

Contemporary segmentation became a brand-driven process due to

- Availability of demographic, purchasing data, advertising/distribution channels for groups and rarely for individuals.
- Tactical approach of the brand marketers on segmentation.

Market Segmentation[3]

Market segmentation varies depending on the product offerings of the enterprise, whether they are for *consumer markets* or *business markets*. Let us look at the characteristics of segmentation of both these markets.

Consumer Market Segmentation

Two schools of thought have been popular in the consumer market segmentation research.

One suggests using the following three descriptive characteristics for segmentation.

- Geographic segmentation based on geographic variations.
- Demographic segmentation based on demographic variations.
- Psychographic segmentation based on variations simultaneously produced by psychology and demographics of the consumers.

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[2]Market Segmentation (2003).

[3]Kotler and Keller (2012).

The other school suggests behavioral segmentation based on consumer behavior aspects as follows.

Segmentation is structured on the behavioral bases like

- Needs and benefits
- Decision roles
- User and usage
  - Occasions
  - User status
  - Usage rate
  - Buyer-readiness stage
  - Loyalty status
  - Attitude.

Business Market Segmentation

Business market segmentation employs the following variables

- Demographic
- Operating variables
- Purchasing approaches
- Situational factors
- Personal characteristics of the buyer

Of these, the demographic variables are the most important, followed by the operating variables, down to the personal characteristics of the buyer.

Justification of a Practical Approach for Strategic Market Segmentation

As previously mentioned, the entire success of marketing program rests on appropriate market segmentation and targeting. Segmentation hence got elevated to strategic space. Strategic market segmentation thus replaced the erstwhile market segmentation.

Potential Impact of Market Segmentation on Formulating, Implementing, and Sustaining Strategic Marketing Issues

Market segmentation groups customers with a similar set of needs and wants. Identifying meaningful number and nature of market segments and targeting one or more of them will be of paramount strategic importance since any miscalculation in segmentation will be detrimental to entire business.

Market Segmentation in the Context of Developed Country

Developed countries are those which pioneered industrial revolution and became fertile grounds of capitalism. Rapid industrialization and maturity of economy eventually resulted in these nations. They made breakthrough innovations and advances in mechanization of agriculture, defense, medicine, science, engineering, manufacturing, technology, transport, telecommunications, space research, software, and other related fields which are building blocks of the economy. A gradual shift from agrarian to industrial to services nature of economy is evidenced in them. Today, their economies are predominantly a mixture of industrial and services components.

Another common feature among some of the developed countries is that they were colonial till the middle of twentieth century, for example, Great Britain, France, Portugal, Spain, and Netherlands. Their colonies happened to be cheap source of raw materials and also immediate markets for their industries for centuries, and this is the primary reason for their industrial development.

Let us now examine the environmental factors for an industry/enterprise in a developed country that contributed for flourishing of the business and the economy and how strategic market segmentation was impacted due to these developments.

Political

Political environment was marked by monarchies, dictatorships and aristocracies, strong military formation, frequent wars for territories which were flourishing centers of trade and business, sources of rich natural resources and areas of strategic prominence, search for outside opportunities due to limited domestic resources, establishment of colonies by exploitation of weak political situations in the kingdoms with which trade contacts existed.

Economic

Usage of more land for industrialization due to less population, establishment of more and more factories due to industrialization, demand for expanded markets, lucrative colonies which were sources of cheap raw material and dumping yards of finished products, resulting in accumulation of huge capital and strengthening of the home economies, marked the economic environment.

Social

Religion was the center of social structure, which controlled the political, economic, and legal systems. The society was striated into the church class, the ruling class, the aristocrats (official machinery), and the ruled class. Challenge of religion by science, rise of Protestants, the spirit of innovation, inventions and discoveries, and rapid industrialization triggered social transformation. Originally unskilled and agrarian, the labor, gradually were trained to the demands of industrialization. Society was almost homogenous, with the only differentiation in the social rank of the people.

Technological

Fertile technological environment existed which resulted in inventions like steam engine, railroad network, shipping, and printing press which advanced manufacturing, transport, and communications. Strong economies with huge pool of capital encouraged more investment and technological advancement. Strong political will and competition among countries to gain military supremacy started rat race for defense and telecommunication innovations. Weapons were produced in so huge quantities creating defense markets as well.

Legal

Since church was all powerful, legal system rested on religious practices. Codification of law later evolved. Industrial revolution created labor force, which eventually culminated in labor legislation.

Ecological

- The lure of industrial supremacy undermined the ecological backlashes. Unhealthy competition in weapon production ignored the environmental and ecosystem damage caused by nuclear weapons.
- The world has not yet healed from the devastation of two world wars. The developed countries have pushed the world to a zone far from repair.

Impact on Strategic Market Segmentation

- Political environment influenced *business market segmentation* due to rapid industrialization in the strategic sectors like defense, transport, telecommunications, and infrastructure. *Geographic segmentation* in retail space gained importance.
- Economic environment influenced *geographic* and *demographic* segmentations in both business and retail markets.
- Social environment influenced the *demographic* and *psychographic* segmentation, predominantly in retail markets.
- Technological environment influenced the *psychographic* and *behavioral* segmentation in retail markets.
- Legal environment influenced *demographic* segmentation both in business and retail markets.
- Ecological environment influenced *behavioral* segmentation in retail market and *situational variables* in business markets.

Market Segmentation in the Context of Emerging Market

The environmental factors in the emerging market vis-à-vis a developed country can be analyzed as follows (Table 12.1).

Impact on Strategic Market Segmentation

The environment in which firms operate in emerging market is fundamentally and drastically different from the developed countries, as observed above. It is therefore imprudent to use the market segmentation methodology that worked for developed countries, to the emerging markets as well. Joint ventures of one foreign and one local firm would be the most appropriate strategy for business for the efficient management of local (to the emerging market) parameters. This would be a win–win situation for both the local and foreign firms.

Discussion

The above information on the environment in emerging markets leads to the following analysis on the market segmentation in emerging markets.

Table 12.1 Environmental factors influencing market segmentation [Prepared by Author]

S. no	Environment	Developed country	Emerging market
1	Political	✓ Monarchies, dictatorships, and aristocracies ✓ Strong military and frequent wars for profitable and strategic territories ✓ Colony formation by exploitation of weak political situations in kingdoms with which trade contacts existed	✓ Young governments mostly formed on independence from colonial rule ✓ Rich, powerful, and selfish get power at the expense of poor, powerless, and illiterate ✓ Greed for power breeds innumerable political groups and unstable governments ✓ Misuse of abundant national resources due to selfish rulers ✓ Almost all the nations struggling yet to be looked at as respectable sovereign entities by international fora like UNO, IMF, WB, and WTO ✓ Apparently independent, but fear framing any national policy contrary to interests of developed countries, which wield enormous influence on international fora like UNO, IMF, WB, and WTO
2	Economic	✓ Use of more land for industrialization due to less population ✓ Establishment of many factories due to industrialization ✓ Demand for expanded markets led to colonialization, with the colonies being sources of cheap raw material and dumping yards of finished products ✓ Accumulation of huge capital and strengthening of home economies due to colonialization	✓ Uneconomic use of rich natural resources due to huge population ✓ Economies rest on agriculture from natural rainfall due to deficiency in other irrigation methods ✓ Domestic consumption exceeds exports due to large population ✓ Colonial enterprises continue to lead in competition with local firms, as the latter could not have time and resources, after the independence, to take on the former ✓ The governments are also not in a position to frame protectionist policies for local firms, for the fear of sanctions by developed nations ✓ Local industry is unable to meet the expectations of very highly skilled and talented human resources from premier institutes, and they either end up serving enterprises or as research scholars achieving breakthrough innovations (in developed countries) ✓ Economies are growing just because they are serving as sources of cheap and large labor force and not due to actual development either in the agriculture, industry, or infrastructure ✓ Decisions by unprofessional, inefficient, and selfish leadership lead to institutional voids

(continued)

Table 12.1 (continued)

S. no	Environment	Developed country	Emerging market
3	Social	✓ Religion at the center of social structure, controlling political, economic, and legal systems ✓ Social striation into the church class, the ruling class, the aristocrats (official machinery), and the ruled class ✓ Challenge of religion by science, rise of Protestants, the spirit of innovation, inventions and discoveries, and rapid industrialization triggered social transformation ✓ Almost homogenous society with people differentiated only with their social rank	✓ Innumerable social striations based on religion, region, culture, caste, language, dialect, and so on ✓ Huge variation in the customs, traditions, and practices of the people ✓ Family is at the center of society ✓ Sheep herd behavior is visible with blind followership of political leader/regional or religious or caste head/celebrity ✓ Majority are still far from satisfying their basic needs of food, water, shelter and health, equity, and justice which are distant dreams for many ✓ People are obsessed by the 'foreign' brands
4	Technological	✓ Fertile technological environment marked with inventions like steam engine, railroad network, shipping, and printing press ✓ Inventions advanced manufacturing, transport, and communications ✓ Strong economies with huge pool of capital encouraged more investment and technological advancement	✓ Voracious consumers of the international technological advancements and people are the fastest adapters to new technologies ✓ Struggle to give any technological breakthrough innovation to the world, due to scanty resources (both financial and others) even to the premier research institutes ✓ They have to struggle a lot and generally fail to secure an international patent for their breakthrough innovations, due to the political and economic factors discussed above
5	Legal	✓ Church was all powerful, and legal system rested on religious practices ✓ Codification of law later evolved ✓ Industrial revolution created labor force, which eventually resulted in labor legislation	✓ Legal system is the generally the old and unchanged colonial system, though currently obsolete ✓ Complicated legal procedures are evident
6	Ecological	✓ The lure of industrial supremacy undermined the ecological backlashes ✓ Unhealthy competition in weapon production ignored the environmental and ecosystem damage caused by nuclear weapons ✓ The world has not yet healed from the devastation of two world wars. The developed countries have pushed the world to a zone far from repair	✓ Greed of people and corruption of officials inflicted decades of damage on the ecology ✓ Governments woke up late and are taking baby steps toward salvaging mother nature

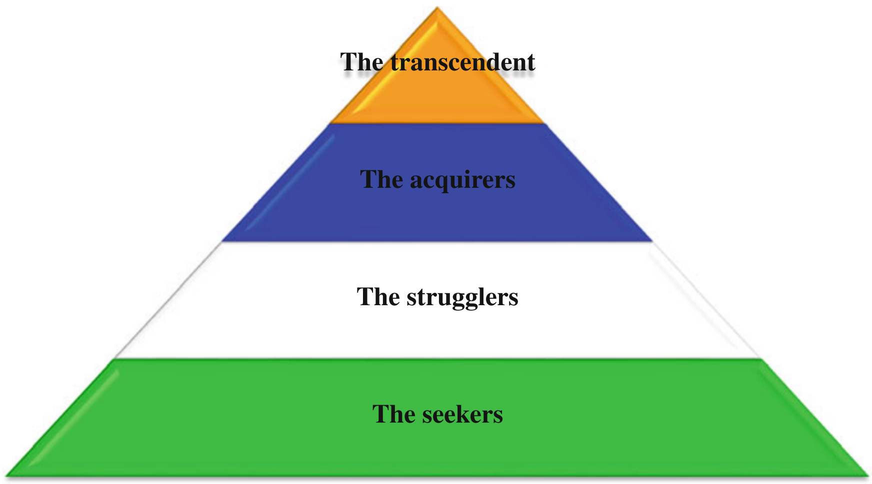

Fig. 12.1 Emerging market pyramid (EMP). [Prepared by Author]

The whole population (consumers and firms) of an emerging market can be divided into four segments of the people, which can be conveniently termed as emerging market pyramid (EMP), depicted as follows (Fig. 12.1).

Let us examine the pyramid as follows, from both the *business market* and *consumer market* perspectives (Table 12.2).

From the above analysis, it can be observed that the segments fare in *five segmentation criteria* and Michael Porter's[4] *five forces or parameters* for segment attractiveness as follows.

Market segmentation criteria—segment rating

Criterion	The seekers	The strugglers	The acquirers	The transcendent
Measurable		✓	✓	✓
Substantial		✓	✓	
Accessible		✓	✓	✓
Differentiable		✓	✓	
Actionable		✓	✓	

(continued)

[4]Porter (1980).

(continued)

Segment attractiveness parameters—segment rating				
Parameter	The seekers	The strugglers	The acquirers	The transcendent
Threat of rivalry			✓	
Threat of potential entrants		✓	✓	
Threat of substitutes			✓	
Threat of buyers' bargaining power		✓		
Threat of suppliers' bargaining power			✓	

Table 12.2 Analysis of emerging market pyramid (EMP) [Prepared by Author]

Market segment	Perspective	
	Business market	Consumer market
The seekers	✓ Firms with deficient resources ✓ Very quick mortality due to unprofessional and inexperienced management of business environment ✓ Largest population	✓ People with deficient resources ✓ Live in abject poverty ✓ Try to gather sufficient resources entire life ✓ Largest population
The strugglers	✓ Firms with some deficient resources ✓ Seek impossible targets with reference to available resources ✓ Tend to fail after initial foothold ✓ Less population than 'the seekers'	✓ People with some deficient resources ✓ Often tempted to satisfy wants, though resources not even sufficient to meet the basic needs, getting into vicious debt trap ✓ Excessively influenced by advertisements ✓ The typical 'middle class' or the 'working class' ✓ Less population than 'the seekers'
The acquirers	✓ Firms with sufficient resources ✓ Progressive growth is witnessed due to strategic moves ✓ Prudent investments, capital accumulation, near monopoly performance, growth both by organic and acquisition mode ✓ Less population than 'the strugglers'	✓ Powerful people with affluent resources ✓ These would be in a position to acquire any expensive offering, especially as status enhancer ✓ Rich in educational and financial resources ✓ Highly influenced by advertisements, brand obsessed ✓ Typical 'upper middle class' and 'high class' people ✓ Less population than 'the strugglers'
The transcendent	✓ 'The acquirers' seeking no more expansion, instead indulging in corporate social responsibility ✓ Least population; may well be negligible in number	✓ Affluent, yet wish to lead simple life ✓ Not influenced by the 'status' factor in purchasing offerings. Very comfortable to use any cheapest product if basically is of adequate quality and meets the needs ✓ Not influenced by advertisements ✓ Often indulge in philanthropy ✓ Least in population

Recommendation

On the basis of foregoing analysis and discussion, it is evident that targeting '*the strugglers*' and '*the acquirers*' segments would be a prudential strategic move for gaining competitive edge. Following are few recommendations for both of these segments.

For 'the Strugglers' Segment

1. Since the segment is very highly price elastic and very highly brand loyal, only value for money and highly durable offerings suit this segment.
2. Population of this segment generally would be facing hardships. So, if offerings which 'make life easy' are provided, they would imbibe them for life.
3. This segment would be the long-term cash cow if the offering is positioned securely in the segment.
4. If firms can go extra mile and take initiatives to enhance buying power of this segment, as a part of corporate social responsibility, part of the segment gets converted to *'the acquirers'* which bolsters the profitability of offerings in *'the acquirers'* segment.

For 'the Acquirers' Segment

1. Offerings for this segment should enhance the social status, personality of the user and, at the same time, provide maximum luxury/performance.
2. Often, niches in this segment would be more practical and profitable.
3. Branding should be given top most priority since only brands and not products get sold in this segment.

If Both Segments Are Targeted

1. Firms should be extremely careful not to provide same brand if they cater to both the segments. The brand is bound to fail.
2. If both segments are decided to be targeted,

   - Appropriate differences in the offerings should be built in.
   - Marketing, branding, advertising should be taken up in such a way that offerings to these segments appear to be from two separate firms.

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Part III
Digital Marketing

Chapter 13
Strategic Application of Mobile Couponing in Indian Market

Abhishek and Nidhi Titus

Abstract Mobile-coupon (m-coupon), an extension of the traditional coupon which is accessible on mobile phones, has emerged as one of the promising tools in marketer's arsenal. The opportunity to customize and the convenience that m-coupons provide to customers are the main reasons for their growth. This chapter explains the strategic role of m-coupons in driving marketing initiatives. Apart from the aspects of customization, the role of digital disruption leading to decoupling effect is highlighted for strategic adoption of m-coupons. This chapter also explains the different strategies adopted in developed countries and how they influence delivery of m-coupons. This is followed by explanation about issues peculiar to India which may hamper or enhance usage of m-coupons in Indian markets. This section also provides some recent examples of successful m-coupon used by Indian companies. Towards the end, the chapter discusses the two technological advancements—sensor-based communication and mobile wallets—which are being integrated in mobile marketing and are likely to drive m-coupon adoption. This chapter concludes by re-emphasizing that consumer behaviour and demographic trends of Indian customers will help in m-coupons becoming an important tool for marketers in India.

Introduction

Coupons have been accepted as the most important promotional tool across the globe which drive, incentivize and engage customers to try the product (Barat and Ye 2012; Bawa and Srinivasan 1997; Yin and Dubinsky 2004). Coupons tend to have a positive influence and impact on customers as they aid in creating aware-

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A. Adhikari (ed.), *Strategic Marketing Issues in Emerging Markets*,
https://doi.org/10.1007/978-981-10-6505-7_13

ness, product trials and customer retention and at the same time generate sales in the short term by the call-to-action appeal. Mobile-coupons (more commonly called m-coupon and sometimes also known as moupon) are an extension of the traditional coupons which, as the name says, are coupons that customers can access on their mobile phone. According to the formal description by Mobile Marketing Association (2007), a mobile-coupon is "a text or a picture ticket solicited or delivered to a customer's mobile phone which can be stored and exchanged for a financial discount when purchasing a product or service".

When compared to other promotional tools, m-coupons have been a relatively new concept but come as a valuable additional tool at the disposal of marketers to strengthen, supplement and reinforce their marketing efforts. In the emerging world of increasingly competitive marketing, many marketers see m-coupons as a promising and prominent instrument in their marketing kit-box for influencing customer's purchasing behaviour. In this chapter, we explain the strategic role of m-coupons in driving marketing initiatives.

The role of m-coupons is likely to become important in coming days with wide adoption of mobile phones in emerging markets. While traditional paper coupons can be easily distributed in developed countries due to larger circulation of newspapers and magazines, their distribution in emerging markets becomes a challenge due to lower literacy rate and consequent poor circulation of print media. Even though literacy rate has improved in India, it has not been reflected in proportionate increase in circulation and readership figures. Given the widespread adoption of mobile phones in emerging markets and rising popularity of smartphones, choice of this medium removes the distribution constraint for coupons. Thus, m-coupons should be seen as a core component of marketing strategy by marketers and companies in emerging markets.

Role of Mobile-Coupons

Mobile phone, being a highly personalized, cost-effective and result-oriented medium, makes this channel an effective mean for reaching to potential customers (Barwise and Strong 2002). This has led to emergence of mobile marketing as a very important opportunity which the marketers cannot afford to miss (Shankar et al. 2016; Ström et al. 2014). This has also led to growth in advertising and promotions on mobile platform (Andrews et al. 2016; Grewal et al. 2016). Moreover, studies have found that customers are now not as concerned with privacy issues as they were few years ago because customers are getting used to the fact that advertisers use mobile phones as advertising channel (Vatanparast 2010). Consumer research has also shown that 63% of customers felt that a coupon will be the top incentive that they will like to receive as a mobile marketing message (Tsirulnik 2009). Consequently, recent years have seen growth of m-coupons across a wide spectrum of sectors such as retail, FMCG and consumer durables for a number of reasons as described below.

In the traditional couponing process, there is no scope to personalize the promotion as per customer's requirement. However, m-coupons provide flexibility and scope for *customization* which is not possible with traditional coupons (Danaher et al. 2015). This customization can be extended to time and location dimension (Hui et al. 2013). When compared to traditional coupons, m-coupons can be sent immediately to potential customers depending on the relevant time of the day/week (Banerjee and Yancey 2010). For example, an ice cream company may be interested in sending offers to customers in late afternoon or evening which is the time of consumption rather than early mornings. Though, traditionally, coupons could be sent only in morning through newspapers, m-coupons give the option to ice cream company for implementing the campaign closer to the time people actually eat ice cream, i.e. in the late afternoon or evening. Similarly, ice cream company can plan for m-coupons on a particular day of week depending upon the weather condition of that day. For immediate action, m-coupons also provide the flexibility to marketers for offering time-sensitive m-coupons. Companies can increase footfall at the times of day when sales are low by offering customers time-sensitive coupons to customers which calls for immediate action.

Customization for m-coupons can be extended to location dimension as well. In a location-based m-coupon, customers can automatically receive the latest offer from a retailer when they are near the store. For example, when the customer walks around the mall and passes by a cookie shop, the smell of freshly baked cookies can influence the customers to make the purchase. This is the point of time when the store can capture impulse customers as this moment has the maximum influence on customers. If the cookie store is engaged in location-based promotions, it can send out messages for a discount to customers on their mobile device which can lead to purchase. The offer is communicated on the basis of GPS location data sent by their mobile phones when customers come in the vicinity of store. This is also known as "just-in-time" promotions which is not only effective but also an economical way to deliver personalized timely offers that encourage customers to visit store and make a purchase.

While customization across time and location is the biggest strength of m-coupons, they also facilitate in combating "showrooming" during shopping. The phenomenon of showrooming refers to the practice by customers who examine the merchandise in a traditional brick and mortar store and then go on to search for the best deal on chosen merchandise in online stores. Teixeira and Jamieson (2014) have explained this practice as "decoupling effect due to digital disruption" by which the value creation process and value capturing process have been segregated. Earlier retail stores used to create and capture value by ensuring that all stages of shopping process—involving evaluation, selection, purchase and delivery—were made in the store itself. With showrooming, the value creation process happens at the stores whereby the shopper evaluates and selects the merchandise at the store by feeling and touching it. The salespersons present in the stores help in decision-making by providing answer to customer's queries. However, by looking for cheaper price in online stores and making the purchase through online retailers, the value capturing process is transferred away from stores. Retail stores can try to

Table 13.1 Pros and cons of m-coupons

Pros	Cons
• Higher redemption rates observed comparable to any other promotional tools • Lower cost in comparison with paper coupons • Potential to customize and fine-tune m-coupons • Possibility of tracking the exact location where m-coupon was accessed, downloaded and the redemption time which can help in adjusting marketing spending and logistics • Possibility of making the m-coupon viral if it is linked with social media. For example, in order to avail the coupons, the customer would need to "like" on Facebook which will encourage their fans to promote and share the offer with their friends and social networks • Preferred by environmentally conscious customers	• The case of enforced controlled redemption (ensuring that m-coupon can be redeemed only once per customer) is a drawback from customers' point of view • Difficult for technologically challenged customers • Requires an ecosystem involving technological infrastructure, trained point-of-sale personnel and m-coupon clearing mechanism for efficient operations

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minimize the impact of showrooming by employing location-based m-coupons which provide the incentive to customers to make the purchase at the store itself. We present a summary of pros and cons of mobile-coupons vis-à-vis other marketing promotional tools in Table 13.1.

Mobile-Coupons in Developed Countries

The use of paper coupons to induce purchase has been widely accepted practice in developed countries. However, over the years, the redemption rate for coupons have dipped significantly and it has been mainly employed by low-income level strata of population. Turtle (2013) reported that out of 305 billion coupons for consumer packaged goods sent by different companies in USA, customers used only 2.9 billion coupons in 2012. The reasons for low redemption of paper coupons have been attributed to rising income levels, hassles associated with coupon clipping and non-possession of appropriate coupons at the time of purchase. M-coupons can address the problems associated with coupon clipping and ensuring availability of coupons at right place and at the right time, thus helping in enhancing the redemption rates and increasing the sales.

Marketers have employed push and pull strategies for offering m-coupons. According to Unni and Harmon (2007), the push and pull mobile communication methods have differing influences on customers. The key idea behind pursuing the push approach is the opportunity to trigger impulse buying among the customers who have already given permission to send m-coupons (i.e. opted-in) and have expressed their preferences. Thus, in push approach, customers could be informed about non-scheduled promotions and discount almost immediately through m-coupons. From the companies' perspective, the push method can be seen as an effective way to reach customers in a rapid manner (Unni and Harmon 2007). However, the push model also has its drawbacks as customers are more likely to experience some loss of control of the message they receive, even though they may have opted to receive these messages. Also, push approach is very challenging in terms of gaining customer acceptance, especially its timing, and it may produce negative responses including avoidance, if the timing is not right (Edwards et al. 2002).

In contrast, for pull strategies, customers explicitly request and show interest in the product/service from the company. Here, the customers are aware of product/service offered by a particular company and they keep a track of company's promotions in order to find out if there is any offer which interests them. Although customers have to put in an effort to receive a message, many customers like it as they have a greater control over the messages that they receive. Though it is often feared that pull strategies will draw in lower response than push strategies, with rightful tailor-making of messages, pull strategies have also seen to be very effective.

In both the strategies, marketers make offering of m-coupons through different formats which customers can redeem at the point-of-sale (PoS). These formats can be classified as SMS (Short Message Service), MMS (Multi-Media Service) and mobile apps. Among these formats, SMS had been the most prominent way to reach customers with m-coupons. However, with proliferation of smartphones, delivering coupons through mobile apps has emerged as the most popular option. Distributing m-coupons using mobile apps presents a unique opportunity for retailers to acquire, reward and engage with customers. This has led to continuous growth of m-coupon users in developed countries. Reports suggest that, in USA, number of smartphone m-coupon users have grown from 7.4 million in 2010 to 74.1 million in 2015.[1] The higher adoption of m-coupons by customers has also led to rise of m-coupon aggregators. For deal-prone customers, these aggregators provide relevant m-coupons in one communication which saves them from the hassles of searching for m-coupons. Aggregators also play a role in back-office handling and clearing of m-coupons if the discount amount has to be claimed from brands by retail stores.

[1]Statista.com. Number of smartphone m-coupon users in the USA from 2010 to 2015. Retrieved 24 January 2017 from https://www.statista.com/statistics/246863/amount-of-adult-smartphone-mobile-coupon-users-in-the-us/.

Mobile-Coupons in Indian Markets

Having looked at the manner in which m-coupons work, it is imperative to examine its adoption in emerging markets like India. The wider adoption of m-coupons in India can be attributed to growth in technological infrastructure and consumer behaviour reasons, and the impact of former on the later. Though India was late in building infrastructure for information technology, the country has made rapid progress in last few years. India passed a milestone when the country reached one billion mobile subscribers (Rai 2016). Now, Indians consider mobile phones as a necessity and do not consider Internet access on mobile phone as a wasteful expenditure. As a result, there has been a constant rise of people using Internet on mobile phones. According to the Internet and Mobile Association of India, there were 432 million Internet users in December 2016, the second largest base of Internet users in the world after China, with most of Internet access via mobile smartphones (Chopra 2017). It was estimated that India had 292 million smartphones in 2016, ahead of USA and only behind China (CII Grant Thornton Report 2016). The proliferation of smartphones is likely to continue as according to a recent report from Ericsson, smartphone ownership in India is expected to reach 810 million people by 2021 (Ericsson Mobility Report 2016). Smartphone usage has also changed the way consumers behave and interact on an everyday basis. Consumers are much more updated, information-savvy and active on their smartphones like never before. Companies have also realized the importance of being present on this platform where their target consumers are likely to be present. In this context, reaching out to consumer through m-coupons which can be delivered through smartphones becomes vital.

Among different consumer behaviour reasons, the first factor is the demographic profile of the country in which youth forms a sizeable portion of population. Youth audience and male users are more likely to trust mobile marketing communication than older audiences and female users (Jayawardhena et al. 2009) which makes youth more amenable to use m-coupons. Moreover, research has shown gender differences in the mobile service adoption with females enjoying m-coupons more than males (Ha and Im 2014). Recent reports suggest that women in India spend more time on mobile phones, thus increasing the possibility of adoption of m-coupons. Furthermore, Indian customers, like customers all over the world, feel good if they are able to get something free or they are able to save on their purchase. Also, given that Indian customers have largely been bargain-hunters (Dwara et al. 2015), m-coupons are likely to see good adoption.

Though m-coupons have huge potential in emerging markets like India, there is likely to be a huge gap between awareness for m-coupons and actual usage of m-coupons which can stem from a number of factors. Most of the traditional small stores in India do not have the electronic point-of-sale (PoS) scanners for billing. Lack of technological ecosystem forebodes adoption of m-coupons for these small stores. Even for large format retail stores, there are technological challenges either with alphanumeric m-coupons or with barcodes sent through smartphones.

Generally, brands prefer to use unique alphanumeric codes in m-coupons for reducing misuse by customers and retailers. This also leads to manual entry of m-coupon codes at PoS, causing inconvenience to PoS clerks and customers. In case of two-dimensional barcodes, most of the current PoS scanners cannot read the barcodes on mobile screen, thus making the redemption process difficult. For smooth PoS operations, retailers need to install image scanners in checkout lane. With a number of counters in checkout lanes and multiple stores in a chain, the number of new PoS image scanners require huge investment for the retailers.

The redemption process is not only limited to PoS scanners but also involves employee's ease-of-handling m-coupons. Many a time, employees face issue with m-coupons when a customer seeks to redeem multiple m-coupons at the time of purchase, thereby delaying the process and causing inconvenience. Thus, training the PoS and back-office staff (including supply chain movers) and creating appropriate awareness among them about the whole process become equally important. Otherwise, it acts as a deterrent in the overall experience that the customer faces at the time of redemption.

Another issue with respect to m-coupons is about privacy concerns of mobile users. While customers in developed countries are more open about sharing their mobile numbers with the companies due to strong privacy laws in place, it is not the case with Indian customers. Though companies are keen to deliver m-coupons, most customers are hesitant and unwilling to share their mobile numbers as they do not wish to sacrifice their privacy in order to receive m-coupons. Customers are more apprehensive as they fear that they will receive numerous unwanted, highly intrusive advertising messages on their private mobile phone.

The lack of acceptance of m-coupons in India can also arise from linguistic and geographical diversity. While m-coupons have been mainly adopted in the English language, less than 30 % are said to be literate in the English language (Nilekani 2008). Also, linguistic diversity of India with 23 official language makes mass-scale widespread adoption of m-coupon difficult. Furthermore, geographical diversity of Indian market also makes it difficult to come out with a single m-coupon programme as people in different parts of India may have differential sensitivity for m-coupon adoption. Based on the experience of adoption of m-coupons in USA markets where groceries, retail goods and food were the top three most frequently redeemed coupon categories (Tode 2013), it can be surmised that m-coupons may see differential redemption pattern across products and services in India.

Some companies have already piloted m-coupon initiatives in India and have seen very favourable results. Snapdeal, which started as a daily deal site, invested significant amount of money in devising its m-coupons system which enabled the customers to avail discounts at different merchant outlets without taking a printout of the voucher. For the same, Snapdeal sent text messages with a unique id which allowed the customers to avail the deal at merchant's PoS. In order to facilitate smooth redemption, it also developed a mechanism whereby merchants could check the validity of m-coupons at any point of time during the offer period (Preethi 2011). Similarly Vodafone, in collaboration with bookmyshow.com, launched

"Buy a movie ticket and get 1 movie ticket free" offer which involved m-coupons. In this offer, customer received a six digit m-coupon after she called on a pre-specified Vodafone number. This m-coupon could be used by the customer to get one ticket free of her choice if she booked her tickets on makemyshow.com. Spencer Retail and brands such as Subway, Adidas, Baskin Robbins, and Kwality Walls are some other players who have experimented with m-coupons in India and have seen high redemption rates. Spencer Retail's pilots for m-coupons in Bangalore and Kolkata saw close to 20% redemption rates (Mukherjee and Basu 2010).

Discussion

M-coupons can act as a differentiating factor for companies as they are highly *cost-effective* and, at the same time, add value to the customers. M-coupons deliver a higher return on investment when compared to traditional paper-based coupons. Frost & Sullivan, a market research firm, found that cost of delivering m-coupons is almost negligible in comparison with print coupons which cost anywhere between $0.25 and $0.40 per print coupon (Purdy and Gandhi 2009). At the same time, while the average redemption rate of print coupons has been around 1–3%, m-coupons had a *high redemption rate* of around 15–25% (Purdy and Gandhi 2009). It is in line with predictions made by Raskino (2001) who expected that customers would use m-coupons more often than paper coupons as they carry their mobile phones, and thus the coupons would be with them all the time.

Like traditional coupons, m-coupons have the potential to encourage new product trial, increase footfall, improve product awareness, boost sales and respond to competitive pressure. Although m-coupons offers the same benefit vis-à-vis traditional coupons, such as price-off and buy-one-get-one-free, *focused targeting* is one of the big advantages which m-coupons can offer. Here, companies can send tailor-made offers to suit the target groups based on their past purchase and redemption behaviour. M-coupons can also help in developing databases of potential customers and converting them into loyal customers. Companies, by checking on the customers who have been sent the m-coupons vis-à-vis those who have redeemed them, can identify the dissatisfied customers. The company can elicit their feedback and thereby can take on right measures to build and strengthen their relationship with customers.

With respect to customer, it has been stated that convenience of customer has been the key for enhancing the use of m-coupons. From customer's point of view, m-coupons offer higher degree of *convenience* as there is no need to clip (Khajehzadeh et al. 2015). They appeal to more technology-savvy customers who may not be interested in investing time and effort for searching traditional coupons and prefer using the convenience of the new medium and related services

(Dickinger and Kleijnen 2008). M-coupons also appeal to environmentally conscious customers who prefer using m-coupons as they reduce paper waste, thereby preserving the environment.

Usage of m-coupons will also be driven by technological advancements which are being integrated in mobile marketing. Two prominent initiatives are sensor-based communication and mobile wallets. Two technologies in sensor-based communication, namely Near-Field Communication (NFC) and Bluetooth Low Energy (BLE), are being increasingly employed in m-couponing (Abhishek and Hemchand 2016). NFC enables wireless communication between smartphones and similar devices when they are brought in close proximity to each other. Nokia was pioneer in introducing NFC on its mobile phones which allowed its NFC-enabled credit and debit cards to make contactless payments. Same technology, with some adaptation, is being used to redeem m-coupons. Major payment gateways such as MasterCard, Visa and American Express have already piloted NFC-enabled payment mechanisms (MasterCard—PayPass, Visa—payWave, American Express—ExpressPay) and have made them operational for payments which do not involve swiping the cards. NFC provides an innovative approach for m-coupons where retail stores can overcome the cost associated with installation of image scanner which is required for scanning of two-dimensional barcodes sent on mobile phones. With NFC being factory installed on almost all models of smartphones, redemption using NFC is likely to become the most popular norm. Sensor-based communication has also been used by retailers to send messages about deals to customers using BLE technology. While BLE had been present for last few years, its use in location-based services by Apple through iBeacons in the first half of 2014 brought its prominence. This technology, when installed by stores, allows stores to detect the presence of nearby iOS 7 devices and send messages about their latest deals.

The second major technological advancement driving usage of m-coupons is mobile wallet. It is the digital equivalent of the physical wallet wherein digitized versions of credit cards and other items such as loyalty cardsand personal ids can be stored and retrieved as per requirement. Mobile wallets have been developed as payment mechanism systems which are aimed at providing ease of use and enhancing customer experience (Shin 2009). Google Wallet and Apple Passbook are two popular mobile wallet services which have also included m-coupons in their services. Google Wallet has been developed as a mobile payment mechanism to allow users to store information about their cards (debit, credit, loyalty cards, etc.) on their mobile phones. Customers do not need to carry all their cards, and yet they can make payment at stores by Google Wallet which uses NFC protocol. The storage capability in Google Wallet has been extended to include information about m-coupons. Apple's Passbook app has also been developed as a mobile payment mechanism which allows users to store coupons. It was built to exploit the changed customer behaviour with respect to coupon redemption pattern whereby customers increasingly stored m-coupon on the device rather than redeeming them immediately. The Passbook app organizes coupons by multiple brands/retailers in one convenient location on the smartphone, thus organizing coupons in simple way. Google wallet and Apple Passbook have been preferred by retailers as they are based on NFC technology, and therefore, they obviate the need to upgrade PoS terminals with image scanners. The customer has to only present her smartphone to the cashier for redemption. With demonetization of INR 500 and INR 1000 in November 2016 in India, popularity and adoption of mobile wallets such as PayTM, Mobikwik and Freecharge has increased dramatically. It will not be long before these mobile wallets start integrating and delivering coupons from other brands.

Conclusion

The success of the m-coupon examples in India points that m-coupons have a very bright potential in India. This potential of m-coupons is going to be fuelled by the growth of smartphone in India which is conducive to facilitate m-coupon usage. Recent years have seen considerable change in usage pattern of m-coupons with the introduction of smartphones. Researchers have established a strong correlation between the use of m-coupons and the growth of smartphone users. Indian mobile phone users spend considerably more time on their smartphone than users elsewhere in the world. While the current penetration of smartphones is estimated to be close to 30% of current mobile user base,[2] the numbers are expected to rise in near future. This, along with consumer behaviour and demographic trends of Indian customers, will help in m-coupons becoming an important tool for marketers in India. When used creatively and imaginatively with other elements in the promotional toolbox, m-coupons can have higher synergistic value and its impact can be multiplied many times over.

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Chapter 14
Demonetization in India: Opportunity for Digital Payment Industry

Chintan Gondalia

Abstract Digital payments in India are in very nascent stage as compared to other large-sized economies around the world. Demonetization of high-value bank notes has given a positive trigger and opportunity for digital payments industry. This chapter focuses on analysing the environment in Indian economy which has made it conducive for the growth of digital payments industry. It also discusses possible steps that the industry participants could take to leverage this conducive environment to build a sustainable and profitable business. This chapter discusses various environment constraints and drivers that can be used for a strategic marketing exercise. It also discusses the 4 Ps framework which the digital payment industry can focus upon.

Introduction

Indian economy is quickly growing from an adolescent to an adult, and the government is pushing a lot of cultural changes (in the way the business transactions are carried out). Recent decision of the Indian government to demonetize high-denomination (500/1000) bank notes is one such step to bring about a cultural shift. The reasons put forth by the government were to curb corruption, eliminate counterfeit currency and moving towards less cash or cashless economy. The size of the shadow economy was 1490 thousand crore in FY14-15, and the taxes foregone due to it was 3.2% of the GDP (Visa Research, "Accelerating the growth of digital payments in India", exhibit 2).

In this article, we shall focus on opportunities for the digital payments industry; that may arise by the intent to move to a cashless economy. This article intends to discuss barriers that digital payments may face in India, the opportunities that demonetization has created and the strategic shifts that the industry would need to

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A. Adhikari (ed.), *Strategic Marketing Issues in Emerging Markets*,
https://doi.org/10.1007/978-981-10-6505-7_14

make in its marketing approach, in order to capitalize these opportunities, to create sustainable value for customers, shareholders and society at large.

Digital Payments in India

Payments are transfer of value between two people in exchange of goods and services. The payment instruments have evolved over the years and have become more **secure** and **user-friendly**. With businesses stressing more upon the time value of money, the timing (and speed) of payments has also become important attributes of any transaction. Cash and cheques were the most commonly used and traditional way of making payments. However, with evolution in computing and mobile technologies, there had been a dramatic change in tools of making payment. These are often referred to as electronic payments or digital payments.

Digital (Electronic) Payments

The primary instrument of payments has still remained the same (which is money), but the channel of carrying out transactions has become digital. Since there is no formal definition for digital or electronic payments, we shall use these terms interchangeably in our article. Digital payments can be loosely defined as umbrella of tools that allow the payer to transfer money to payee without the use of actual bank notes or coins, in a secure and timely way. The evolution of digital payment began when debit cards/credit cards/ATM cards were offered by the banks as mechanisms of withdrawing money (non-branch transactions) or direct money transfer to the payee (credit and debit cards). It was considered as a revolution in itself, since cash vending at ATMs reduced branch operation costs of banks. This was followed by revolution in digital space. As telecom solutions flourished, the Internet was made available widely and cheaply. With the Internet being widely used in metros and tier 1 cities and with high availability internet services; net banking and online payments picked up the initial traction.

This was followed by another revolution of online shopping. The products were now available in an online marketplace, and buying was as easy as few clicks. This revolution has also fanned the growth of the digital payments, as these payments instruments were being frequently used for making online purchases. Online purchases have been predominantly an urban phenomenon, but with increasing availability of the Internet in semi-urban and rural areas, there is a huge potential for this industry and therefore digital payments options.

How Much Have the Indians Embraced Digital Payments?

Digital transactions have spurred up in India with advent of online shopping companies like Flipkart, Amazon, Snapdeal and others. These companies began offering heavy discounts for online sales in order to attract its customers. Along with this, there has been quick penetration of smartphones (low cost) and increased reach of Internet services. This has created awareness of and usage of mobile wallets and has given thrust to companies like Paytm, Mobikwik.

However, the industry is still at a very nascent stage with the size being around $50 Bn and hardly contributing to the country's GDP. But the recent study by Google (Alphabet) and BCG has shown that the industry is poised to grow at 10 × in the next 4 years and the size of the industry in 2020 would be better of $500 Bn. The industry is expected to contribute about 15% to the country's GDP by then. This would be enabled by **increased penetration** of smartphones, **progressive regulatory framework** and **improved willingness** to adopt this instrument of payment by the customer. However, there are a few barriers to this quick penetration of digital payments.

Barriers to Digital Payments

There are several barriers that the digital payments industry will need to overcome, in order to grow exponentially in the coming years. The exhibit beside is an excerpt from the Google–BCG study. It brings out clearly that the habit to use cash is by far the most significant barrier for consumers to move to digital mode of payments. It is followed by complexity to use it and no significant value proposition as reasons for slow transition to digital mode of transfer. Surprisingly, reach is not much a barrier at this stage being at the bottom of the list of barriers. The industry has to strategize to eliminate the top few barriers in order to create more awareness and increase adoption of digital mode by large number of consumers (Figs. 14.1 and 14.2).

Unorganized retail is by far the biggest segment that is being presently addressed using cash transaction, followed by utility bill payments and trade. Medical services and health care are also presently heavily serviced by cash transactions.

Digital payments have tremendous opportunity to move into this space and capture the customer base in these sectors. Google–BCG study has projected the maximum contribution to the industry coming from unorganized retail, utility bill payments and modern trade. There have been progressive steps taken by various governments to facilitate the transition of economy to digitized payments, with recent ones being more aggressive.

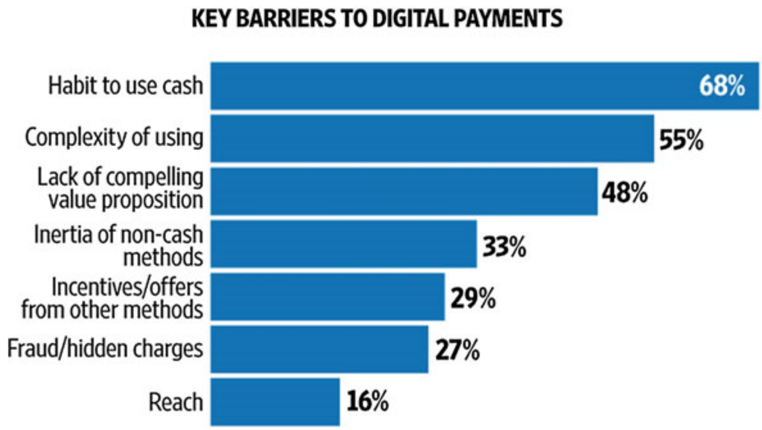


Fig. 14.1 Key barriers to payments

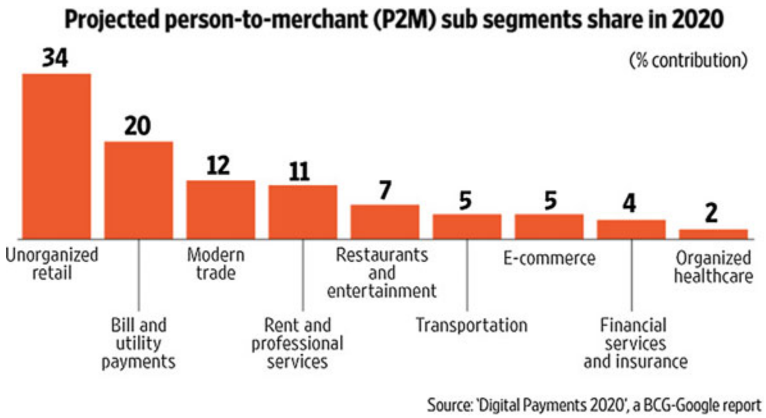


Fig. 14.2 Transaction segments

Demonetization and Reduced Cash in Economy

On the 8 Nov 2016, the Prime Minister of Asia's largest democracy announced a massive demonetization program, in which high-denomination bank notes (500/ 1000) were rendered invalid from that very night. This removed more than 80% of bank notes from the circulation. The government justified the action by affirming that this action was taken to eliminate counterfeit bank notes, bring the stashed cash into the banking system and subsequently moving to cashless economy.

With this action, suddenly the entire money circulation got dried up and everyone had to move the banks to exchange invalid notes with valid ones or deposit them to the account. What was envisaged was the day-to-day small business would be heavily affected with the prime instrument of payment (cash) suddenly drying up. To add to the troubles, unorganized retail sector started hoarding the smaller denomination notes (20/50/100) to maintain their liquidity. This started affecting the small traders and businesses. The daily milk vendor, tea vendor, roadside eatery vendor and the grocers were beginning to get affected badly with cash crunch.

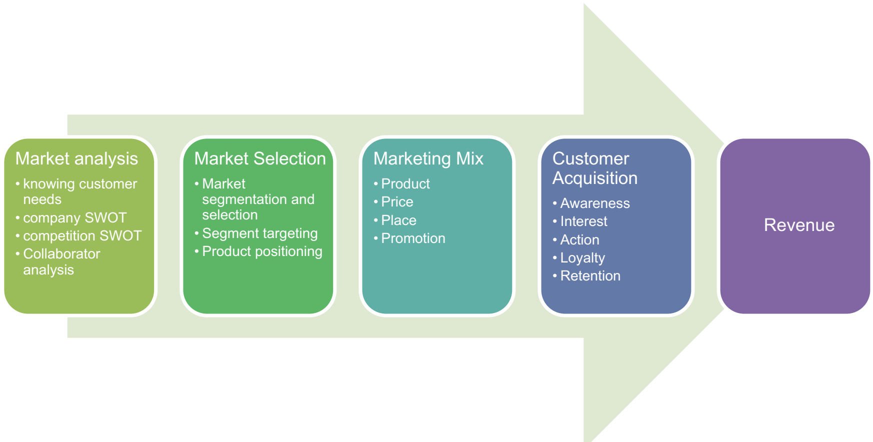
Opportunities for Digital Payment Industry

With unorganized sector being badly affected, unorganized transportation (auto-rickshaws, taxi and buses) also began feeling the pinch. The radio taxis quickly became an easy alternative to these modes of transportation because of their ability to be cashless. Demand for Ola (Ola money) and other such taxi services surged up rapidly. This is a clear opportunity for the digital payment industry. Transportation is just one sector to that can be addressed. Generic digital payment services like Paytm and Mobikwik swung into action to leverage this opportunity. If we look back to what were the key barriers to digital payments, the most significant barrier was habit to use cash (and this was removed overnight with bank notes becoming invalid), followed by complexity to use it (this is where the industry needs to focus to make this simpler) and then lack of compelling value proposition (which was also created by drying up of the cash). The major barriers were eliminated overnight by the government action.

This has created tremendous opportunity for the digital payments industry. However, the industry will have to embark on major strategic shifts to *capture the value* that is potentially created due to their presence in payment systems' ecosystem.

Strategic Shift

To achieve the transition in the strategy employed by the digital payments industry, the analysis can be done with changes in various aspects of the strategic framework. The following exhibit shows the strategic framework.



Strategic Marketing Framework

The digital payment industry was focusing on markets with ***biased product orientation***. This may be because it is a technology-centric service and the industry had invested significant money in developing the platforms and infrastructure to carry out transactions. Besides, the potential customers until now were all the ***innovators*** and ***early adopters***.

With widening up of the segment, the industry would now have to transition to ***market orientation***. There is an opportunity to cross the chasm and move awareness and adoption to early majority. However, in order to achieve this, the industry has to understand the expectations of the new segment. Answers to questions like "**what are the needs of this segment?**" and "**what are their drivers to select a payment alternative to cash?**" are to be sought, and the offering needs to be aligned to the customer's expectations.

In Segmentation and Target Identification

Until recently, the digital payments (mobile and Internet) were targeted by various banks and payment banks, towards a small (**early adopting**) segment. This segment was primarily in the metros and urban areas, where people are used to transacting cashless. With large number of smartphone penetration in this segment, the digital payment industry focused all its resources towards acquiring such customers (Figs. 14.3 and 14.4).

All the marketing decisions like product design, pricing of services and promotion focus were primarily on the above segments. These were the potential customers for digital payment companies.

With the demonetization decision and government's push towards less cash economy, the **segment** that is now willing to move to digital payments **has suddenly widened**. In addition to the above segments, following potential segment was added *overnight.*

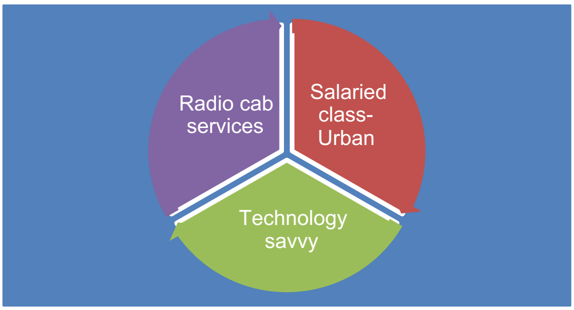


Fig. 14.3 Traditional customer segmentation

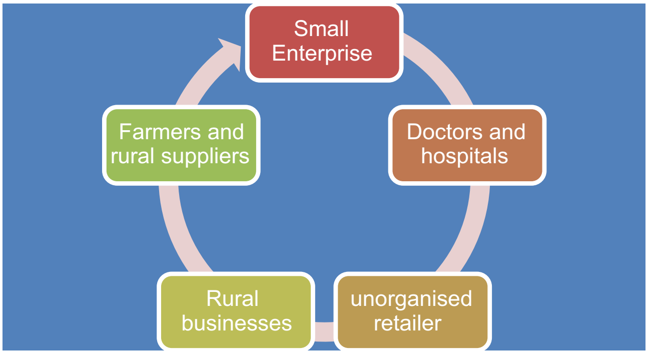


Fig. 14.4 New customer segmentation

This opportunity is there to pick up but needs thorough understanding of how these segments transact and what are their characteristics.

Digital payments industry should therefore revisit many of their strategies (from offerings to positioning their offering to communication and promotions.

In Offering

The newly added segments are the ones who are extremely comfortable with the use of cash for their transactions. With the new regulations, they are feeling the need to use the digital payments. The industry should quickly identify the needs of this new segment and attempt to address them with variety of shifts in their marketing mix.

Promotion is perhaps the first thing that the industry would have to work upon. At present, their offering is in line with most requirements of the potential customers. What is needed is to quickly create awareness about it in the new segment. A typical buying (usage) cycle for any customer is shown in the figure. Creating awareness is the very first stage that needs to be quickly worked upon in the new segment. After evaluation of the alternatives, the risk factors need to be alleviated. This is important in case of digital payments, since the new segment is wary about safety of their money and quality of transactions. Their concerns have to be effectively addressed by building their confidence on the payment systems and communicate the security features. It should also focus on ease of use, to encourage new customers to not be worried about complexities in using it. For instance, Paytm has been making significant marketing efforts to educate the users about the simplicity of transactions and safety. There are radio advertisements that show a fairly low smartphone-literate person using and endorsing the Paytm for ease. The common population tends to relate to them. Besides creating awareness, they are also providing free recharges as part of their promotion (buy Snickers and get a rupee 20 free recharge on Paytm) and so on (Fig. 14.5).

Fig. 14.5 Customer buying behaviour

Pricing is important aspect in case of serving an Indian customer. Indian customers in any segment are price-sensitive from medium to high level of sensitivity. With digital payments offering being an alternative to cash, the pricing needs to be lower than that of cash transaction. Government has begun this by providing tax/surcharge waivers on digital transaction for certain goods. The industry should also provide discounts on large volume (or value) of transactions, encouraging fence-sitting customer to make trial transactions and adopt this new mechanism of transaction. The pricing here consists of two parts: the cost of using a digital payments instrument and the discounts (or motivation) to use them. Both these costs need to be minimal to successfully engage with an Indian customer. Government has been encouraging digital payment banks to reduce surcharges. In addition to this, the industry needs to work on reducing costs of moving money from wallets to bank accounts, which is a showstopper at this stage.

Place is by far the most important driver for digital payments in India at this point in time. With demonetization, the rural and semi-urban economy is bound to be badly affected. This is because both rural and semi-urban economies have been traditionally depended heavily on cash transaction and credit for business operations. If the digital payment industry wants to capture significant market, they will need to quickly move into these geographies. The place for delivery of service should be widened, so as to cover larger sections of the segment.

Product innovation and quick transition to upgraded offerings are need of the hour. The new segment that has been added is highly price-sensitive and not that tech-savvy. The smartphone users in rural and semi-urban areas would need transactions to be *independent of data.* The other important attribute that they would be expecting is interoperability. There are many players in the digital payments industry (ranging from banks offering services to payments banks to app-based services). At present, the transactions are limited only to same service provider in case of app-based services. The inter-provider transactions are presently not been served, but seamless movement of digital money and users from one provider to the other is urgently needed for growth of this industry. These initiatives are to be taken by the industry participants before the economy is adequately remonetized with cash. There should be interoperability among these service providers to ensure seamless cashless transactions.

In Acquiring Customers

Acquiring new customers for digital payments in India would be a herculean task. Primary reason for this is the first two barriers that we discussed above. Most people are comfortable with cash transactions and lack of faith on systems that are backbone of the electronic payment world. Demonetization has provided that window of opportunity for the industries to quickly acquire a large customer base, which are affected by cash crunch. The unorganized retailers and unorganized hospitality (roadside eatery services, barbers) have been affected by sudden cash crunch along with small enterprises and industries. Most of the unorganized retailers (in urban and semi-urban areas) have immediately moved on to digital payments (like Paytm and Mobikwik). Even doctors and roadside food vendors display their Paytm QR codes. Credit card swipe machines are also made available at many places for ease of transactions. The allied industries which were heavily dependent on cash have seen shift to digital payments within days to ensure their business sustainability.

The industry participants should quickly acquire data on behavioural patterns of transactions and identify fence-sitters that can be easily acquired as customers. Government has announced discounts (or waiver) on use of electronic payments for petroleum products. Analysing behaviour of prospects who move from cash to cashless (with motivation of discount) would be one such segment. Therefore, companies should *track the behaviour and transform their action* to acquire early segments participants.

Companies should also begin to create awareness by adequate and clear communication as part of their promotion. In rural and semi-urban areas, prospects are informed about "cashless transactions" by government through various campaigns. However, these prospects do not have detailed information on how they could complete the transaction. Moreover, they may have inherent resistance, cynicism or fear about fraud and safety of their money. Therefore, campaigns focusing on communicating the benefits, ease of transaction and security aspects in the way that can be easily deciphered is the key.

In Retaining Customers

The sustainable revenue stream could be created only with loyal customers. The companies should start building loyalty in the customer with becoming entirely customer-oriented. The biggest advantage of digital payments is the *market* *research* data is captured while making the payments because of digital identity of the customer. These "actions" give accurate data about the consumer behaviour rather than capturing "what the customers say they do". The buying decision patterns for each customer provides enough leads for creating customized offers, discounts to ensure that high-value customers are retained.

Marketers should leverage upon this data to carve out customized services (or discounts and waivers) to encourage customers to make repeated usage of the services. The revenue streams could come also come from businesses that use these payment options, with money being credited to their account immediately. The industry would eventually be moving to interoperable platform. This is when value delivery would become extremely important. With interoperability in place, it would be quite an effort to retain customers and build loyalty.

Digital Payments in Developed Economies

Developed economies like the USA and European countries have been way ahead in digital payments, since their retail economy is heavily driven by card usage. Various brands have also provided their app (wallets) to building a loyal customer base. For instance in the USA, Starbucks rewards its customers with cashback in its wallet for coffee consumption. Starbucks in wallet payment has been one of the successful options for building loyalty (BCG–Google Report pg 9). Back here in Asia, Alibaba in China has been mobilizing a lot of digital money through its Alipay Wallet. It is believed Alipay has clocked more than 500 bn USD during the year 2015. (BCG–Google Report Pg 10).

The way ahead…

The renewed push by the government for cashless transactions has opened up doors of opportunities for digital payments industry. At present, there are multiple tools to carry out these transactions digitally (NEFT, RTGS, UPI, mobile transfers, wallets). All these tools would be competing with each other for slice of customer segment. Additionally, various service providers will also compete to capture the market share by delivering adequate value to its present and potential customers. In order to capture large market share and customers, the companies would need to start delivery on various platforms and also ensure the customer is retained with value in form of discounts and security against fraud.

From an industry perspective, globally the digital payments may be ahead from what is offered in India; however, they still need to build an entire ecosystem for seamless movement from one wallet to the other. For example, cashback received from Starbucks rewards should be available to buy a product on Amazon. This shall be the ultimate destination for digital payments industry, where it would have truly replaced cash as instrument of transaction.

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Chapter 15
Digital Strategies: Compatibility Issues in Emerging Markets

P. N. Chetna

Abstract The purpose of writing paper on "Digital Strategies: Compatibility Issues in Emerging Markets" is to understand how well the new age marketing techniques are compatible with emerging markets to reach the ever-growing digital consumer base. Currently, we all are living at the edges of various digital touch points, and marketing is no exception to it; rather I would say it is one of the most technologically impacted organizational function compared to any other organizational activities. Due to higher ramifications on various activities of the organization, digital strategies constitute vital element in marketing value chain. The execution of well-defined digital strategies largely depends on how well the organization has understood its objectives and its alignment with organizational goals. We all have witnessed that MNCs fail miserably in emerging markets because they apply same principle which they apply in western markets and ignore the fact that emerging markets vary in their structure, market segmentation, demography, consumer behavior, etc. It has become imperative to broaden the digital strategies in marketing when the organization wants to reach wider audience especially in emerging markets which are known to be hub of rising digital consumer base though it opens up challenges both regionally and locally in terms of consumption, decision making, buying propensities, etc. The adoption of digital strategies is going to amplify in marketing in the years to come. In this paper, I am trying to pen my thoughts on why marketers are not able to implement or execute digital strategies efficiently and effectively in emerging markets.

Why Emerging Markets Are Significant Consumer Base

Developing markets are undergoing rapid technological transformation both at industrial and political level which is resulting in adoption of various digital innovations. Emerging countries are not limited to BRICS (Brazil, Russia, India, China, and South Africa) alone. However, these countries are reckoned with force

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A. Adhikari (ed.), *Strategic Marketing Issues in Emerging Markets*,
https://doi.org/10.1007/978-981-10-6505-7_15

in emerging markets. It goes without saying that emerging markets are going to be powerhouse in terms of consumer spending due to growing incomes, expanding middle-class population, combined with modern digital infrastructures, and usage levels of mobile in coming years will be surpassing to those in the USA and other developed countries.

It is predicted that by 2030, two billion people will be starting their consumption journey, with the majority being from emerging markets (Consumer_Reading_Signs, Deloitte, 2011). Its high time global marketers rethink to re-engage with emerging markets as there is paradigm shift of consumer toward experiential marketing, and each country represents unique challenges.

What Is Causing Emerging Markets to Rethink Its Digital Enablement Strategies

Marketing was never easy in emerging markets, and technology has made it even tougher especially when the reach of digital platforms has increased but has not blended well with consumers in emerging markets. Emerging markets though growing in digital user base faces lots of challenges in terms of designing, data collection, and execution, primarily due to various factors like digital divide among various regions, measurement factors, siloed organizations, lack of localization, existence of legacy system, undefined consumer behavioral patterns and are still finding out ways to understand the hidden patterns of customer data and the value it holds in designing consumer life cycle including both B2B and B2C markets. There are few questions which every new age marketer needs to think before crafting digital strategy for high growth emerging markets in terms of

- How do I localize my content when many of the operating systems still don't support multi-language campaigns?
- How do I monetize on social networks like Facebook, which suffers due to slow/limited mobile connections?
- How do I overcome the challenges of low Internet capacity to handle ever-flooding digital assets?
- Patchy data collections due to widening gap of digital accessibility among the fragmented population.
- Technology still survives on legacy systems.
- Existence of functional silos in organizations which creates mismatch in accountability and ownership of marketing data.

Emerging economies broadly suffer from two kinds of challenges in prevalent digital economy, which can be classified into two categories:

- Firstly, Internet access—to connect businesses, governments, and people, and
- Secondly, Transactional access—to enable products and services to be built and consumed.

The key challenges faced in adopting digitally driven marketing strategies in emerging markets can be categorized under the following categories

- **Digital divides**: Emerging markets are very slow in adopting digital strategies; this is partly due to continuing division within countries between rural and urban areas and across income groups, which is resulting in exclusion of large proportion of consumers being left out when organizations create digital strategies for their products/services. In emerging countries like India, China, Brazil, and Russia, mobile usage might be accelerating but digital strategies cannot be communicated just by voice/SMS. Lack of affordable Internet is causing the digital poverty among large set of consumers especially for low-income consumers in these markets. According to reports, approximately out of India's roughly 1.3 billion citizens only 252 million have access to the Internet (Economic Times, December 2015). For example, Facebook—One of the leading platforms for social media strategy is facing challenges to monetize in APAC market due to very diminutive Internet penetration.

Example: India recently came up in December 2016 with demonetization with an objective of making people go digital. The announcement by the government in November 2016 was widely accepted and appreciated by the Indians, but as time went by, the reactions and experience of common man varied primarily because rural people and small cities suffered due to lack of digital infrastructure and adequate networks in places like West Bengal, Kerala. Local dealers and vendors had immense loss in their business because people could not make digital payments to these small vendors. Though Paytm was introduced, of late it faced issues in routing the additional traffic to new servers and installing additional network capacity.

- **Localization**: Generating demand in emerging markets requires creating personalized experiences as developing countries are highly fragmented in terms of languages, culture, etc., so the marketer needs to identify and localize the most important digital touch points for target consumers. But many marketers struggle with the localization process as they need to scale more content from multiple systems into more languages due to which it becomes difficult to maintain consistency in brand message/positioning in local, regional, and global campaigns. The sheer size and multitude of languages have resulted in both opportunities and challenges in emerging markets. Without localizing content, it is almost pointless to launch a digital marketing campaign in India with 88% unable to speak English (Digitalization of Content in Indian Languages, by Mayflower language services, September 2016). China has also developed a new form of slang, complicating language issues and again increasing the importance of localization in online marketing content. Major operating systems lack support for local languages in developing markets.

- **Technical Infrastructure**: Unveiling Web sites in developing markets may not necessarily involve hosting sites by servers in those developing markets primarily due to the lack of availability of local infrastructure solutions. Latency issues can be avoided when using robust infrastructure because it can distribute server loads across different larger and widespread countries like India and China. However, we need to understand that the developing countries like India and China have high requirement for geography-based servers because these countries still run many of their applications on legacy systems. Emerging markets lack in fiber networks, which is a serious concern as the need for increased capacity is important to handle the ever-increasing digital traffic. Thus, the growing need for offering low latency and handling more uploads might be a question mark for emerging markets.
- **Lack of Effective Data Insights**: Today's digital strategies breathe data in and out, without an effective data/KPI measurement in practice, and it will lead to failure in understanding the market. Today's marketing organizations are considering data as fuel for making decisions as a result of which they are gathering data from multi-channel sources like social media such as FB and Linkedin, mobile apps, and CRM tools. In emerging markets, the barriers to accessibility of data and its analysis will be higher due to the availability of patchy data as emerging markets are defined by the inequality of digital access. Emerging markets usually lack centralized data store, which might cause competitive disadvantage to the MNCs who wants to invade emerging markets because they will not have access to the local competitor's data insights.
- **Fragmented Market**: China market is much more fragmented and complicated. There are multiple social media platforms which have similar functions with an appeal to different demographics. For instance, WeChat is preferred by Generation Y, while QQ, also an instant messaging platform, is inclined toward younger/ millennial generation. Thus, digital tools originated from different markets offer limited value when dealing with China's complex social landscape. Emerging markets vary in terms of languages, payment mode, shopping behavior (online and offline), and consumption patterns. Though developing countries have vast potential for business opportunities, it comes with challenge of fragmented and dispersed regions due to varied demography consumer behavior. Creating a local online presence in emerging countries would demand lot of focus from the MNCs to develop a brand which will be compatible with international standards to win over local competition. For example, while China has high growth potential but faces challenges in terms of low digital adoption and online preferences as the Chinese population prefer more of local standardization compared to other countries in emerging markets, whereas in developed countries like South Korea, Japan and Singapore, it has high digital adoption among consumers to meet their shopping and lifestyle needs. Thus, it is high time for brands to invest in better interface and user experience design as well as back-end capabilities to develop unique digital offerings in emerging countries which are digitally divided.

- **Organizational capabilities**: Marketing and its related functions are facing shortage of talent to meet their marketing analytical capabilities. Emerging markets which are yet to catch up with agile marketing capabilities in full-fledged way are functioning in organizational silos and face ownership issues, data-savvy talent, which impact their efforts in scaling up digital strategies. Emerging markets are facing barriers in executing digital strategies due to organizational functioning in silos and widened gap in IT and network, sales, marketing and customer services functions, which prevents the organization from creating a 360° view of the customer which can guide in creating a better framework of digital strategies for the target audience. Without developing digital capabilities, marketing function may struggle to digitally connect with customers profitably.
- **Geopolitical Status**: Most of the brands fail in large developing economies like China and India due to the strict policies and regulations around accessibility of digital assets which blocks consumer and industries from transporting and accessing their digital assets, which is further widened by the existence of unique digital platforms and ever-changing array of government restrictions. China's strict control over social media and the Internet in general can prove to be mammoth task to be cracked by agile marketers. The primary reason behind having so many filters while executing digital strategy in these developing countries is because the government pays lip service to the cyber security challenges.

Possible Solutions to Overcome Challenges

- Collaborate locally to create value-adding partnership in markets like China which are highly regulated and fragmented though digital consumers are on rise.
- Develop, test, and learn through prototypes by engaging in lots of observations and accordingly making personalized proposition and messaging for the target audience.
- Government should collaborate with telecom players and allocate sufficient infrastructure to bridge the gap between growing digital divides.
- Organizations should function as integrated marketing department by aligning digital strategies along with sales and CRM and creating accountability and ownership for the same.

Digital Inclusion in Developed Countries and Its Impact on Marketing Strategy

Most of the developed countries shifted their narrow focus from communications technology to a broader digital approach which integrates social and economic priorities. Developed countries worked on two access factors (such as fixed broadband and mobile Internet) or transaction factors (such as payment cards) to climb up the ladder in digital evolution. The governments of developed countries have been continuously updating and regulating the digital accessibility of their countries by focusing on:

- Establishment of reliable digital infrastructure such as IoT, establishment of fiber networks, compatible network solutions, etc., to reduce costs and enhance revenues for businesses.
- Identification of digital skill gaps and shortages and ensuring that population is digitally literate, and business needs for digital skills are met to drive economic competitiveness and capture emerging opportunities.
- Robust cyber security governance by establishing framework of co-responsibility of government and business organization for helping consumers and business organizations to navigate securely in digital world.

Impact on Marketing Strategy

- Re-engaged the customer by developing a deep and detailed view of customer behavior across all channels provides a common reference point in any business discussion to identify the right offering for the customer.
- Built agility, speed, and data by working closely with IT to automate existing development processes.
- Extended the networks; the establishment of robust network infrastructure in developed markets has helped in merging of commerce and payments functionalities in the same app.
- Made digital integral to the strategy by integrating digital capabilities into all aspects of the business, from channels and processes and data to the operating model, incentives, and culture.
  - ***Example: Tesco turned to Internet to design digital strategy by creating virtual shops in subway stations, billboards designed to replicate the look of store shelves, down to the arrangement of products. With their mobile phone, commuters can scan the QR code of any item on display, buy it, and have it delivered to their homes that day. These virtual displays enabled Tesco to turn the time spent waiting for a train into shopping time and become South Korea's number one supermarket and second largest supermarket overall and took over the reigning market leader E-mart.***

Why Developed and Developing Economies Require Unique Digital Strategies

Developing countries	Developed countries
Low consumer awareness and trust hindering the uptake of digital strategies	High digital quotient among the consumers; shift from passive participation to active participation
Limited supply of local content, primarily due to a weak local digital ecosystem	Robust ecosystem as the Internet is increasingly shaped up by the companies like Amazon, Apple, FB, Google
Most of the organizations still run on legacy systems resulting in lack of compatibility across digital channels	Regular update of digital infrastructure to match up the needs and wants of the customers by creating better user experience
Lack of strong infrastructure networks, speed, and broadband issues	Availability of fiber networks ensuring quickness and speed in digital accessibility
Lack of local application systems to solve local needs	Development of local digital service

Prepared by Author

Conclusion

Emerging markets constitutes approximately more than half of all global Internet users. Most of the mobile growth is expected to come from emerging markets; with Internet growth in the Western world stagnating at about 80% penetration, its clear that most of the growth in coming years will come from emerging markets (Jason Chernofsky, Why emerging markets are dominating mobile browsing, 2016). Emergence of players like Baidu, M-Pesa, and Tencent indicates that emerging markets are willing to participate in digital era. However, unless and until the ongoing challenges are overcome, it would be difficult to increase the digital market share in these emerging economies. Emerging Markets are central players in adopting digital strategies. According to e-marketer, the user base in Asia-Pacific is projected to grow by 24.4% this year, and more than 40% of Twitter users will be in Asia-Pacific by 2018. Brands are trying to engage with customers through social media.

Today, marketing has become more of interactive platform and creating superior customer experience through personalized message and localized campaign target. Today, the "Word of Mouth" created digital channels and social media. There is no doubt that emerging markets are seeking out new ways to optimize the digital strategies and drive innovation in these markets. Digital inclusion is a "Must Have" to thrive successfully in digitally competent markets by building digital capabilities.

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Chapter 16
Challenges to Marketing in Digital India

Aswin Palliath

Introduction

In the last few years, the world has transitioned into a very digital environment. Not just the magazines and books and newspapers, many of our daily tasks such as banking transactions and office meetings have become online. Because of the rise of the digital age, it just seems right to invest in a digital campaign. Even though traditional marketing still has a place, it has started diminishing in the new digital world. In this context, with increased impetus on digital India by the Government, new vistas as well as new challenges open up for an Indian digital marketer.

Irrespective of age, people are getting extensively into smartphones and tablets and social media. Many of the baby boomers in cities and towns are getting into new technologies as it helps them to be in touch with their kids in different parts of the world. The reasons may be varied, but the penetration of technology has opened up new challenges as the conventional means of advertisements and marketing communications could soon be obsolete at least in certain industries. A Boston Consulting Group study says that by 2020, about 315 million Indians living in rural areas will be connected to the Internet, compared to 120 million at present. This basically means a jump from 36% of total online population to 48% of total online population in four years (Vidhi Choudhary, Sounak Mitra, Harveen Ahluwalia, August 2016).[1] This paves way for marketers to showcase their products in rural-most areas where a physical presence is very challenging. The technological penetration promoted by Indian Government, though good for a marketer, is equally challenging as India is highly demographically varied.

[1]http://www.livemint.com/Consumer/QgM23BLpCo4ovHxA0jpOGM/Rural-India-getting-online-faster-BCG-report.html.

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A. Adhikari (ed.), *Strategic Marketing Issues in Emerging Markets*,
https://doi.org/10.1007/978-981-10-6505-7_16

The high demographic variation calls for high adoptability and adaptability, the former by the population and the latter by the marketers. The challenges that have been pertaining to digital and rural marketing will become common and create unique issues to the marketer.

The Issues

There are several factors in a growing economy like India when it is on a path to become digital and that too at a high rate. Though the rural population in India have declined from 82 (1960) to 67 (2015) percentage, still a high percentage lives in rural and also the GDP from rural matches that of the urban GDP.

With rural–urban divide in general terms, major differences between them are standards of living, poverty, infrastructure, education, availability of resources, etc. Now with digitalisation plans, Government plans to achieve various objectives like broadband highways, universal access to Internet, information for all, electronics manufacturing.

The penetration of Internet in India is estimated to be at 35% of the population (internetlivestats).[2] So it can be safely assumed that the Internet penetration is going to grow over the years and the requirement for smartphones also (The entry-level smartphones are becoming cheaper). Going forward where smartphones and mobile penetration will be higher than broadband, digital marketers have many platforms opened up to experiment. The challenge and success depend on understanding the diversity. Until recently, the digital payments (mobile and Internet) were targeted by various banks and payment banks towards a small (early adopting) segment. This segment was primarily in the metros and urban areas, where people are used to transacting cashless. With large number of smartphone penetration in this segment, the digital payment industry focused all its resources towards acquiring such customers.

Now for marketing and reaching the hinterlands of India, this is probably the best way. In digital marketing to rural, we use technological tools to promote a product or a service or brand in order to get more customers and retain them as well. The aim remains the same as traditional marketing but the scope widens due to improved availability of resources. There are various channels through which digital marketing can be done like social networking, social media, online PR, display advertising, email marketing, search marketing, game advertising, affiliate marketing and video advertising. There are mainly two categories of digital marketing, namely the push marketing and pull marketing. In pull marketing, the customer explores different available products/services while in push marketing the business houses push their products to the customer.

While each channel has its own reach, advantages and uniqueness, there are associated costs with each of them. The marketing budget is generally fixed, and it is difficult to change it in between. So the maximisation of value is of importance here. Especially with the emerging social media marketing, companies are in a dilemma which would give them the best results.

[2]http://www.internetlivestats.com/internet-users/india/.

Companies tend to choose a market channel and then find out that it is not as effective as the other one could have been for that particular time. This basically needs to reverse—that is, marketing channel has to be chosen for a particular time after considering its effectiveness. Even similar companies need not have same marketing channels.

As much as the positive sides to digitalisation, a negative publicity through digital media also spreads like wildfire and before you know, you are out of business. Especially when you are going rural with digitalisation, which is more of a closer-knit area, any bad word would have a worse impact. And given the naivety of rural population, competitors can unearth you with unethical practices. The requirement for stronger rules and regulations for the digital media as well as its implementation also becomes important in such scenarios. These have to be developed in parallel.

The speed at which markets are evolving is a deterrent for any company in making long-term plans. Also with frequent technological advancements, a marketing venue of today might look insignificant a couple of days after. The only possible way would be to keep abreast of the changing technological scenarios or even try to stay ahead of the advances. It takes a lot of money, infrastructure to get into digital marketing space. So once it is decided to use a particular technology platform, it is prudent to phase out the older platforms gradually in order to reduce cost.

The rural parts of India pose its own challenges like lower literacy, various languages, lesser exposure to brands and lesser spending capacity. Being or going digital can increase the awareness of products or services for them as well as bring about more knowledge of brands. But, physical presence and distribution and the cost involved will still remain problems.

Also, illiteracy is a grave problem in various places and even with digitalisation there can be no much change in that group who are completely illiterate. Another challenge is the language preferences for people especially in rural areas. Most of them have their own local dialects and even if they are literate, it is only in the local languages. But conveying value in a language they understand related to the way of life followed by them itself is going to be a challenge. As per an IAMAI report, 89% of Indian population is non-English speaking and the existing local language options are less than 0.1%. It is estimated that enabling local language on Internet will lead to a growth of 39% in the current Internet user base of which 75% will come from rural areas (Prasant Naidu, August 2015).[3]

Now the digital media has to come up with so much of flexibility for each and every area so that the involvement and inclusion are achieved.

It is estimated that the ones to adopt the new technologies in rural will predominately be the youth. Given the fact that almost more than 50% of Indian population is in rural areas and since it accounts also for almost 50% of the GDP, and also as youth population of India is relatively high, the target group has to be

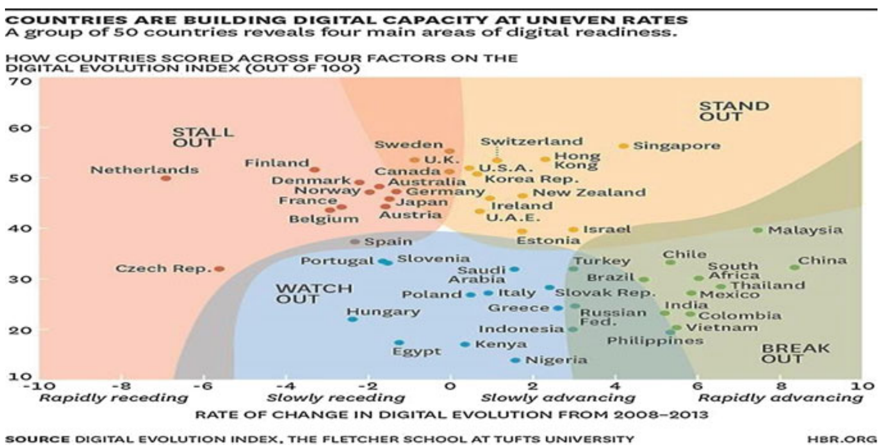
[3]http://lighthouseinsights.in/internet-in-local-language-iamai-report.html/.

the youth. Now with all these developments a thrust is expected in the logistics market also penetrating into rural areas. The article—challenges and solutions for marketing in a digital era published in European Management Journal (Leeflang, Verhoef, Dahlstrom, Freundt, 2014)[4] has explained the topic in detail. Though it is not specific to a country or economy, the paper presented a detailed description about the challenges and solutions for marketing in a digital era, and the paper is one among the most cited European Management Journal Articles since 2012.

A Quick Comparison

It will be interesting to do a quick comparison between India and another country that is fast-adopting digital techniques (PRC) and another, which is already well developed and ahead in digital methods (USA).

Even though Singapore is much ahead in the stand out category as can be seen from the picture below, we have chosen USA for comparison as it is a much bigger country demographically and so is PRC.



To clarify the above diagram a little more, the study carried out (Bhaskar Chakravorti, Christopher Tunnard, Ravi Shankar Chaturvedi, HBR, 19 February 2015)[5] assigned the countries to one of four trajectory zones: stand out, stall out, break out and watch out based on the performance of countries on the index during the years 2008–2013.

Officially, China has the most population of around 1.34 Bn followed by India with a population of 1.19 Bn and USA with a 311 Mn population.

[4]http://www.modirprozhe.ir/wp-content/uploads/Challenges-and-solutions-for-marketing-in-a-digital-era.pdf.

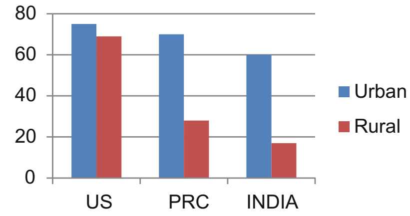
[5]https://hbr.org/2015/02/where-the-digital-economy-is-moving-the-fastest

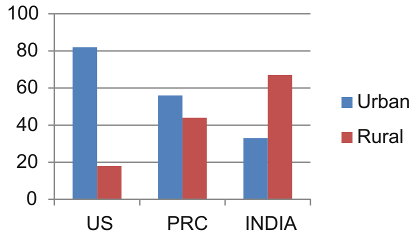
USA has a relatively less rural population of around 18% (World Bank data)[6]

2016

INTERNET PENETRATION (%)			
	US	**PRC**	**INDIA**
Urban	75	70	60
Rural	69	28	17

POPULATION(%)			
	US	**PRC**	**INDIA**
Urban	82	56	33
Rural	18	44	67





Population in numbers				Population in numbers (Internet users)			
	USA	PRC	INDIA		USA	PRC	India
Urban	255.02 Mn	750 Mn	390 Mn	Urban	191 Mn	525 Mn	234 Mn
Rural	55.98 Mn	590 Mn	800 Mn	Rural	39 Mn	165 Mn	136 Mn
Total	311 Mn	1.34 Bn	1.19 Bn				

E-marketers 2016 predictions forecast digital spending increasing still further to a massive USD 83 billion by 2020 for China[7] and USD 113 Bn for USA,[8] whereas India in contrast is expected to reach a meagre USD2.3 Bn by 2020.[9] The diagram depicts US retail industry projections alone.[10]

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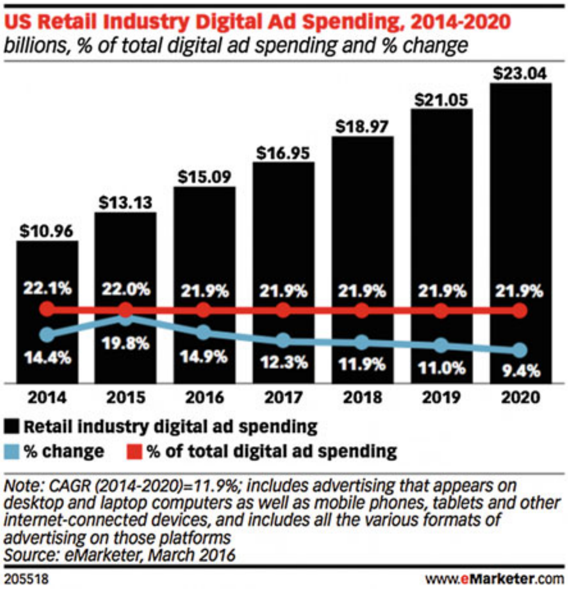
[6]http://data.worldbank.org/indicator/SP.RUR.TOTL.ZS

[7]https://www.emarketer.com/Article/Digital-Ad-Spend-Rises-China-Despite-Economic-Slowdown/1013677.

[8]https://www.emarketer.com/Article/US-Digital-Ad-Spending-Surpass-TV-this-Year/1014469.

[9]https://www.emarketer.com/Article/Digital-Ad-Spending-India-Surpass-1-Billion-Next-Year/1013800.

[10]https://www.emarketer.com/Report/US-Retail-Industry-2016-Digital-Ad-Spending-Forecast-Trends/2001780.



USA differs from India in the very fact that the percentage of urban population as compared to rural is much higher which transforms into better infrastructure (needed for broadband) for most people. But in India, the case is just the opposite. Again USA has a common language English which is used by 98.5% of the population (Camille Ryan, August 2013)[11] as against a very varied and multiple language prevalence in India. The mostly spoken Hindi is only for 53% of the Indian population and the remaining 47% speaks various languages. While in China, Mandarin is widely followed by around 70% of the population which are Internet savvy (various sources). Hence, a single language implementation is easier for Internet in USA and China while the vast geography and various cultures and languages of India pose a challenge to easy Internet penetration of rural India. The Indian Government push for digital transactions (Union Budget 2017) has its own privacy and legal concerns but the Government support for the same can be utilised for rural penetration of Internet and hence different marketing methods which are Internet based.

The Likely Solutions

Promoting digital literacy is one of the main initiatives that are required. Also due to the naivety as suggested earlier, the assumption is that the digital methods are meant for highly educated people or people of high income. Changing the mindset should probably be the first step. Infrastructure development for supporting the technology and making it future proof needs to be developed along with the improvement in digital literacy.

[11] https://www.census.gov/prod/2013pubs/acs-22.pdf.

The Digital Saksharta Abhiyan (DISHA) or National Digital Literacy Mission (NDLM) Scheme has been formulated to impart IT training to 52.5 lakh persons, including Anganwadi and ASHA workers and authorised ration dealers in all states/UTs across the country so that the non-IT literate citizens are trained to become IT literate. Over 1 lakh common service centres are imparting digital training under Government's mission to make every member of family digitally literate by 2020 and industry is also actively participating in the mission (NDTV, November 2015).[12]

There have already been attempts by telecom providers like IDEA to provide digital literacy lessons through interactive voice response programmes. HUL as part of their Project Shakti made 40,000 women from remote areas equipped with smartphones and were trained to take orders, manage inventory and receive updates on promotional schemes (Economic Times, March 2015).[13] Though we say that social media eats away a lot of productive time, they also become initiators for people to get into the world of digital literacy. Many a times, promotions run on a commonly used digital media has found to be giving good response rates. The digital media needs to be friendly for the first time users, and it should be easy to understand and use.

To bring about more people into the digital world, regional language usability need to be provided. Recently, DataMail has started world's first free linguistic email service supporting eight Indian languages. Gradually, they are expected to increase the number of languages to twenty two (Economic Times, October 2016).[14] Also because the Government initiative has its own bureaucratic hurdles within, the time frames set for various areas may get delayed.

Conclusion

The Government push for digitalisation to even remote areas of India forms a foundation for the marketing firms to reach deeper into the Indian villages. The Government push along with the mobile accessibility of Internet can be leveraged with own attempts to reach wider markets. With sufficient number of marketers making use of digital campaign, it is expected to see a high growth of marketing activities focused on rural areas and in the long run it is beneficial for everyone. With the increasing number of smartphone consumers and Internet penetration, the B2B, B2C and even C2C marketing are going to undergo a sea change in coming times.

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[12]http://www.ndtv.com/india-news/government-to-impart-digital-literacy-training-to-52-5-lakh-by-2016-1244390

[13]http://articles.economictimes.indiatimes.com/2015-03-18/news/60249457_1_feature-phones-rural-marketing-tutorial.

[14]http://economictimes.indiatimes.com/tech/internet/datamail-worlds-first-free-linguistic-email-service-supports-eight-india-languages/articleshow/54923001.cms.

Chapter 17
Digital Disruption in Emerging Markets

K. Ramakrishna

Introduction

Businesses are trying to reach customers directly through digital interactions instead of going through traditional brick and mortar model or through whole sale/retail outlets. This is due to e-commerce burst post 2010, which directly impacted traditional distribution channels. There is change in the behavior of consumer sharing positive feedback towards brands, branding of product and its services that improved acceptance, trust, and loyalty. With more customers accessing online medium and other app based platforms, many e-commerce companies started hiring more distribution channels to keep abreast with the competition and demand. Hence increased scope of distribution in the value chain, it is more like coexistence than competition.

The ability of organization to create engaging narratives that customers will respond to is the bane of many organizations. Organization that fails to create compelling messages online to launch its product risk tainting its image and losing potential customers. Another force that undercut emerging economies the benefit of social media marketing is the slow adoption of social media marketing. Some organizations still rely much on traditional media to advertise their product due to the level of trust in such channels than social media platforms. Cases of deceitful accounts and false news on social media platform deter some organization from using such platforms to communicate their product to customers. Considering the rate of illicit activities online, some organization favors traditional marketing channels than social media marketing channels in order to eliminate such deceptive activities.

Similarly, the divergence in social media usage among the millennial, generation X, Y, and Z, makes it difficult for organization to effectively reach their target audience. Since social media is the fusion of media and communication, it becomes

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A. Adhikari (ed.), *Strategic Marketing Issues in Emerging Markets*,
https://doi.org/10.1007/978-981-10-6505-7_17

imperative that organizations employ proven communication strategy to reach their target audience but risk of misconstruction of the content shared on these platforms is a serious problem of organizations. Minimizing the noise from the encoder to the decoder is a complex task which can only be tackled by social media professionals.

A field survey conducted 2016 among different organizations shown below.

Size	%	Department	%	Ownership	%	Years of existence	%
SMEs	23	Marketing	100	Private	93	<5	27
Medium	44			Public	7	6-10	43
Large	33					10+	30
Social media department/team						Yes	No
						34	66

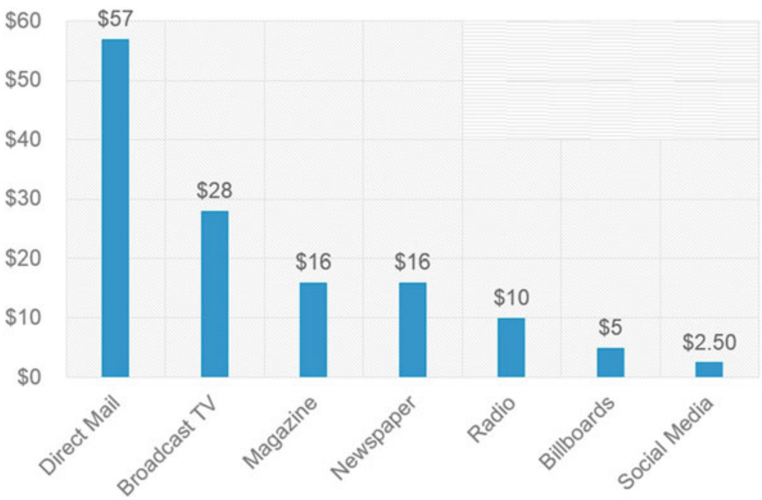
Having said this, question still arises, with more e-commerce companies setting up their own channels, how far traditional marketing channels can compete in terms of operation, and collaboration, with the like of new digital space and would it be sustainable in the long run in both emerging and developed market context?

Strategic Marketing Issue

Background of Traditional Marketing:

Traditional media heavily relied on print, radio, email broadcast, television, hoardings, billboards, digital signage, and pamphlets distributed through newspapers. It was more of a one way communication; eventually there was no feedback/reliability in how to measure the effectiveness of these ads. This is exactly where social media scores, where you can make use of tools to track campaigns run on digital space.

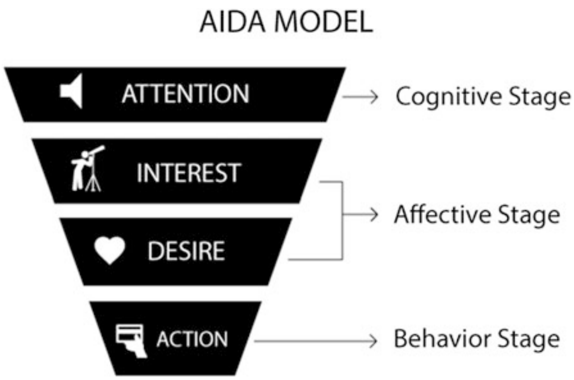
Traditional media channels like television and print media are expensive thus increasing the marketing budget of organization. Small scale businesses find it costly to run a television or radio advertisements for their product. Newly established businesses also find it difficult to expend huge amount of money on traditional channels of marketing.



Social media issues, we see in present day many companies chase social media marketing without a vision/mission, unsure which platforms fits them, inconsistent participation, assuming we are targeting the right audience, digitally unsavy team, data paralysis, and lack of personalization.

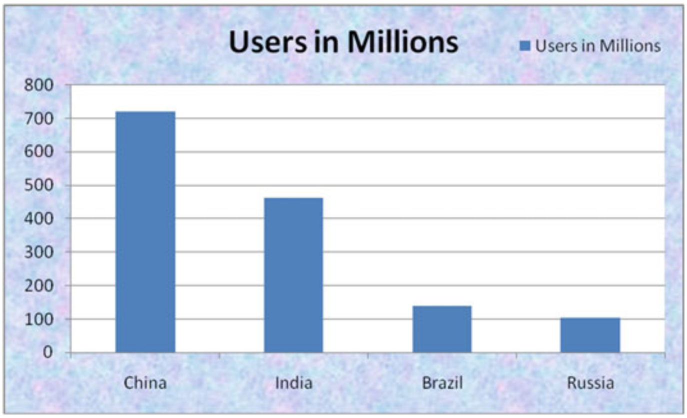
Emerging Markets
Emerging markets (BRICS) have shown very good progress in individual spending power with low and middle class incomes increasing at par with developed countries. With communication channels improving, so is the digital platforms coupled with consumer empowerment.

Though consumer empowerment is increasing at par with the developed countries still the awareness of product/category knowledge is not adequate in emerging countries. This could be due to lack of infrastructure in rural and urban areas, which are strategically pushing companies to adopt Brick and mortar model, digital mediums and other communications, so that they don't miss out in reaching nook and corner of emerging markets. Thus the strategy keeps changing based on the geographies they promote its product/services. Where, digital reach is bare minimum due to lack of infrastructure, so still distribution channels could play a vital role.



The key issues companies face in emerging markets when compared to developed markets is that the engagement level at each stage are far less than the developed countries. Typically, AIDA model above explains the cognitive phases of a consumer buying something from grabbing attention to getting to them hooked and then compelling them to take action. Though strategy is in place every marketer has issues in keeping consumers engaged at every stage of buying cycle.

A report published in July 2016 on Internet users in emerging countries shows that India finds second place next to China.



In Indian context, marketers are using digital medium as primary source to reach end consumers to promote their product/service offering, this is more significant now with new government initiatives/policies to promote online transactions either through mobile app based platforms or internet based desktop purchases. With only 15% to 16% internet users' coverage, marketers are finding it difficult to reach rural areas where strategies are far different for urban areas unlike in developed countries. So traditional marketing still plays a vital role in emerging markets in promoting product and its services to rural audience along with digital marketing. This could be one of the key reasons why marketers identified Integrated Marketing and Communications model, which addresses communications in both rural and urban areas.

A demographic dividend data published in PWC, quotes that by 2030, India and China to contribute nearly 1 billion people to the global middle class, combined will account for 41% of global middle class consumption. Over the next few decades nearly 2.7 billion people will become urbanized in emerging markets. This clearly shows emerging market potential to the global marketers and why they require region based strategies to woo the consumers.

> As data is piling up every second on social media, marketers have limited window to showcase their stuff and reading becomes difficult so marketers are demonstrating their ideas through visually appealing video content. It is observed that users share more video content than text or image content. So this is becoming socially relevant in social media with more users preferring video than text content. Now social platforms have become standalone, where you can directly post video without even hosting in other sites.
>
> We use social media marketing a lot for promoting our products and a noticeable number of users are decision makers who actually share feedback in respective medium. This enables us to communicate with the right prospect on time.

A Practical Approach

- As digital marketer you should be able to define goals, responsibilities, resources, accountability and work with cross functional teams.
- Allocate dedicated resources for content writing/repositioning/distribution, identify social media measuring tools, identify relevant community members to become brand advocates, identify target groups, and use bloggers as brand influencers.
- Social media tools allow marketers to capture user experience their likes and dislikes. So marketer should have willingness to take both positive/negative valence and address them immediately to retain prospect with the brand. So social engagement with prospect becomes most relevant and priority.

Developed Markets

Developed countries always craved way for budding entrepreneurs, created platforms, potential, products and processes. This allowed companies in developed countries to reach more consumers, and brand consideration set is also much wider.

In emerging markets, customer thinks of few products/services, thinks of few brands, does active evaluation and reaches to a potential purchase/closure.

Conducive infrastructure and reach helped companies in the developed countries to publicize their cognitive experiences to the customer related to the brand with factful information. In general, it is perceived that social media as a medium to share information with like-minded people within a closed group of users. But it was never perceived how social media could be a vital tool for marketers to connect with their prospects in most informal way yet effective. So it is important to have relevant tools and marketers needs to understand which social login really works for their line of business.

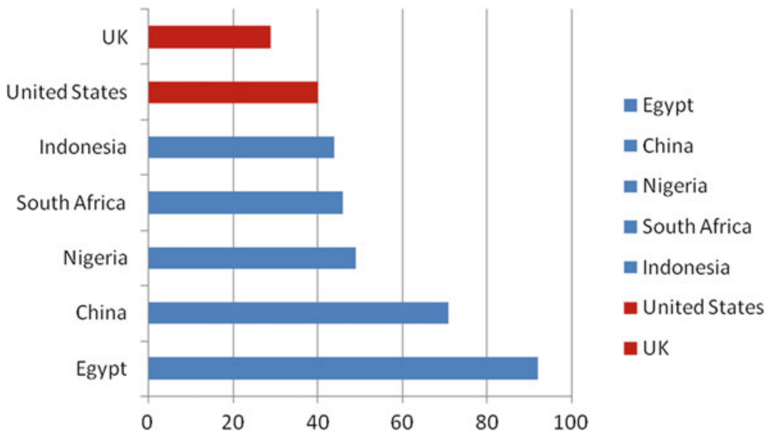
Major challenges marketers face today are (a) keeping content fresh and relevant to audiences, (b) consolidating information into sizable metrics to measure its effectiveness, (c) identifying communities/forums/bloggers who could vouch for brand, and (d) keeping content relevant to region.

The emerging markets could have same impact as in the developed markets. To name a few companies chase social media marketing without a vision/mission, unsure which platforms fits them, inconsistent participation, assuming that people will understand the value believing that people will listen to and find value, digitally unsavvy team, data paralysis, and lacks personalization.

On a related note, it is understood that users in the developed markets are more engaged with the brand than the counterparts in the emerging markets. This is due to lack of awareness about the brands in the markets due to infrastructure and reach. Hence the purchase cycle in the developed markets are much higher than in the emerging markets.

In emerging markets, still consumer believe in word of mouth representations, but generally, we don't have complete control on the feedback we receive through this medium. It can be more apt in their context, but might not be suitable for the other customer.

Having said this, WOM is still a priority in emerging market buying cycle than in the developed markets. A McKinsey report, says that in UK and USA a 30–40% respondents said that WOM plays vital role in deciding the purchase, where as in China (70% said they would go with WOM) and Egypt (90%). So it is clear, WOM is one of key factors in emerging markets in the consumer buying cycle.



In Emerging markets it is more important to bring brands into their consideration set, which is more important than the counterparts in the developed countries.

Also, shelf life of products in emerging market is on the higher side when comparing to the developed markets. Most likely these three factors play vital role in emerging markets as per a McKinsey report. It shows that unless the brands are in customers consideration set, customers don't engage in the buying cycle, hence the shelf life is more than the consumers in the developed countries. So marketers have

1. ***The initial brand consideration set*** is the most likely ones the customer would like to buy from, so there is lot of resistance to include new brand in the consideration set.
2. WOM plays an important role in first time buyers, lack of awareness narrow down the brand consideration set, regional cultures also influence in brand validation, and patchy media efforts.
3. In-store experience woos more customers to take decision and very rarely customer decides not to take decision based on several factors, the experience they get inside store, costs, quality, and more…

Customer Decision Journey

Why "WOM" dominates in emerging markets than in developed markets?
It is due to cultural and socio-economic features that keep customers apart from each other. At the same time consumer is more comfortable, if his/her friend is using the product, which he wishes to buy. It gives satisfaction and sense of trust and loyalty towards the product helps consumer buy the product. Overall, emerging markets customers are seen as close knitted family and WOM plays a vital role in influencing the purchase decision. Emerging markets if it is a lower or higher denomination purchase, his/her tendency is to go to different shops check brands, categories, features, test in live environment and then decides to buy the product. This is because, customer does have only few brands in their consideration set and he/she decides on the brand at the time of purchase. Unlike in developed markets consideration set is driven by data than done through personal visits.

Having said that consumers in the emerging markets are changing their behavior to check more product/categories online and marketers see an uptick in number of online users increasing in INDIA at around 34% of the total population, where it was 15% in 2013, and still long way to go when compared to developed countries.

Recommendations
In strategic marketing perspective, emerging markets requires more localized messages to reach the targeted audience, though it is manufactured in the developed countries. Marketers still see more space for consumers' decision at the point for purchase in emerging markets. Consumer still has more affinity towards watching local TV channels, newspapers, and local outlets in their geographies, which in turn help keep a brand in forefront in their consideration set. I am taking an example how brand can be more specific to regions.

For example, let's consider detergent soap "Ponvandu" washing soap, which is more prominent in the south and it is hailed as one of cheapest soap among the low income groups, this cannot be marketed in the higher income group locality and it is not nationally know product like RIN or Surf. However, still people in the south India do have this detergent bar in their brand consideration as one of the product/brand, because it is marketed in local TV channels, regional language newspapers, promoted in local mom and pop stores. I have highlighted this example at the end to show how geographical focus is more critical.

Another example to cite, in emerging market perspective, where automotive OEMs, see that safety standards and the equipment list are mostly standardized, due to consumer wants and loyalty towards global brands.

Marketers are also trying to see if they can keep strategies globally same, but cost and other factor do kick in the early stages of development effort in the emerging markets. This fact further dilutes the common strategy and strategy becomes more emerging market centric, which involves cost, quality, feature rich, service, and government policies. These factors actually push marketers to plan their product development/models made available for that particular region.

In the Far East Asian countries, automakers see wide spread preference for family movers like MUV, which is fast catching up as one of new trends in the Indian market too due to more nuclear families. Similarly, some car models manufactured in India are also available in the western countries without any further modifications done. With this clearly shows how emerging markets have economically improved to participate and join hands with the developed markets.

So definitely, strategies do play vital role based on the voids in the market, size of business, and market contexts.

Conclusion

Strategic marketing perspectives (issues) always help marketers to keep abreast with the competition and constantly help brands to change their strategies based on how the consumer responds to its product/service offerings.

This eventually shifted thought process of companies manufacturing commodity to new product development. India is also making a shift in developing technical skills that can match global competition. This is one of the reasons why many global brands venture in emerging markets.

Having said that, I am seeing a trend where more products from emerging markets are going to the western countries. As well as, a huge investment is made in India by leading fortune 500 companies in manufacturing, software development, engineering, and supply chain.

Emerging markets like China and India is to take up labor intensive, value addition, manufacturing, talent, technology driven product (including New Product Development) at low cost. This craved way for companies in emerging markets to support global brands right from chore engineering jobs to value engineering and NPD. This was possible by nurturing the right talent to overcome the western requirement. The transition is becoming more market oriented and it is driven by consumer need and preferences from brand to brand with sustainable growth.

A sustainable growth is possible only by investing more in quality education system to nurture talent required for the market, enhancing the mobility of labor, research and innovation. We already see more entrepreneurial energy around us, where visitors from global markets are investing in emerging markets. Today, more global brands have recognized and nurtured talent pool in emerging markets such as India, where language is not a barrier and resourceful talent used to develop leading products/software in the world.

In general it is observed, consumers changing behavior online, consumers spending more time online, new type of data—both more immediate and precise, tools to analyze data online changed the way the companies see at both offline and online marketing. Be it strategies for emerging or developed countries marketers build strategy for global market and at be local. Having said that you will have to appoint managers locally to resonate social media messages based on the region.

Recommendations

Digital disruption brought in new trends, skills, attributes and theories that worked for other companies in digital space. However, managers need to keep in mind all digital mediums might not work for everyone. This depends on the line of business they work for. Marketers repurpose their messages based on regions and measure their efforts to empower and communicate with the communities globally.

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Part IV
Multinational Marketing

Chapter 18
Are Mid-Segment Markets in India Still Elusive to MNCs?

C. S. Krishna Prasad

Abstract The emerging markets, including India, China, Brazil, Russia, and then new emerging markets like parts of Africa, Eastern Europe are outside of the traditional home markets of MNCs. The MNCs typically have grown their business in many industries in their home markets of North America, Western Europe, or Japan. On the one hand when these home markets are seeing saturation in growth, on the other hand emerging markets are exploding in growth. This offered a perfect opportunity for the MNCs to capture higher market share and establish dominance. However, the journey has not been easy for many and only few companies can claim success across all customer segments. We looked at India as a representative emerging market and examined the market segmentation in a couple of industry domains. We then make a comparison between the market segment pyramids of the MNC home market and the emerging market. Though the pyramids are similar, we observe that the pyramids are offset to each other in the vertical direction, which means the bases of the two pyramids are at different levels. We refer to this phenomenon as the "**Emerging Market Offset**." As a consequence, this leads to two fundamental gaps—a **Premium** gap and an **Addressability** gap. The MNCs have to develop a better understanding of these gaps to formulate a successful strategy. We then present a case that MNCs have to develop a deeper understanding of the emerging market offset and the consequent gaps. With this, they can adopt right strategic choices to successfully create a profitable business across the segments. They cannot easily copy approaches from home markets and expect automatic success. Success seems to be more elusive for many MNCs, when the offset is higher!

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A. Adhikari (ed.), *Strategic Marketing Issues in Emerging Markets*,
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Introduction

Every year Forbes publishes results from their study on world's most valuable brands based on value and worldwide revenue. Likewise, several other brand studies use different parameters but many of the top 100 brands end up in the list of every study.[1,2] These brands mostly belong to MNC companies ranging from technology products to services to consumer products to industrials. Prominent in the list in the last few years have been Apple, Google, IBM, GE, Philips, Coca Cola, Pepsi, Samsung, Toyota, Mercedes-Benz, BMW, VW, Caterpillar, John Deere, and so on. Even in India in the last few years, there have been similar studies to capture brand value, for example India's top 50 most trusted brands.[3,4] Some of the brands that top the list in India are HDFC Bank, Airtel, State Bank of India, Maruti Suzuki, Bajaj, Hero, Asian Paints, and so on. Given the massive brand valuation of global brands and their presence in many countries, it would be expected that many of them also figure in India's top brands. However, this is not the case. There are very few common names like Coca Cola, Samsung, Colgate. Many of the world's top brands are owned by MNCs. Most of the top brands in India are owned by Indian companies. Why is this comparison relevant for this chapter?

Brand valuation and how well the brands are doing in a particular market is one strong indication of their success in the market. MNC in the context of this chapter means a globally operating company with the headquarters and senior executive leadership located outside of India. These companies would have grown in their home market and then expanded or trying to expand their presence globally and more so into emerging markets. Home market in this context is defined as historically the biggest market where the company got seeded and the business grew in size and strength. Most often, the majority of the executive functional leadership members are based in the home market (Aggarwal et al. 2010; Amal et al. 2010; Bartlett and Ghoshal 1988; Pillania 2009). Emerging markets as commonly understood are regions outside of USA/Canada in North America, Western Europe, and Japan, usually cover the Brazil, Russia, India, and China (BRIC) market as coined by Goldman Sachs few years ago (Little 2008; Pillania 2009).[5] Many of these companies have been able to replicate their home market success in other

[1]Forbes Rankings on World's Most Valuable Brands: Retrieved from https://www.forbes.com/powerful-brands/list/.

[2]Interbrand's Best Global Brands ranking retrieved from http://interbrand.com/best-brands/best-global-brands/2016/ranking/.

[3]Brand Equity's study on India's Most Trusted Brands 2015—retrieved from http://brandequity.economictimes.indiatimes.com/news/business-of-brands/most-trusted-brands-2015-and-the-winners-are-/49909492.

[4]BrandZ study on India's Most Valuable Brands 2016—retrieved from http://www.wpp.com/wpp/marketing/brandz/india-50-2016/.

[5]Goldman Sachs Global Economics Group (2007) *BRICs and Beyond* www.GoldmanSachs.Com.

developed markets, thus leading to their global ranking. However, why only some global brands have been able to succeed and why many of them have struggled in the Indian market?

In India, when the economy opened up in the early 1990s, the market opportunity for goods and services also expanded many folds. Earlier to this, there was license and permit raj where almost any business was forced to apply for licenses from the government. Few local business houses had mastered this art of getting licenses and doing business. Many products and services, several of which are taken for granted today, were aspirational for the consumers because of the huge gap in demand vs supply. There was monopoly in many industries and hence few choices to consumers. Lack of competition led to lack of market-led innovation or improvements.

Fast forward to 10–15 years, the market was opened up tremendously and businesses had a huge opportunity to offer a variety of goods and services to meet with the latent demand in a highly populous country like India. The MNC businesses relied on some key macroeconomic metrics and indicators to predict spend and consumption relative to their own home markets. The size of the market opportunity that was estimated was mostly driven by a burgeoning middle-class population and neo-rich and by treating them very similar to that in their home markets. The few reference parameters that were used to arrive at these estimates failed to take into account some showstopper culture and market-specific constraints. So only some industries have benefitted from this because of the right ballpark, whereas many others have realized that there was much hype and over-estimations and are being forced to revisit their strategies (Little 2008; Govindarajan and Trimble 2012; Khanna et al. 2005; London and Hart 2004; Venkatesan 2013). So there are two basic questions that need to be asked:

Are MNCs past a peak of inflated expectations in terms of market size and growth and going through a trough of disillusionment? Is a low market size in some industries a showstopper for MNCs?

Is it virtually impossible for an MNC company to capture the mid-segment and entry segment? Are there any precedents of success?

This chapter proposes a model that highlights one very important aspect, which is the ***relative view*** of the segmentation of the Indian market and an MNC home market. The chapter then enumerates some example applications of this model of how certain MNCs have devised strategies and defined their approaches to play and win in this market. The conclusion has some key recommendations. India market and emerging markets context have been used interchangeably, even though each market can have its own specificities. MNCs can apply the learning in one market to another especially in emerging markets (Govindarajan and Trimble 2012; Venkatesan 2013).

Understanding the Chasm Called "Emerging Market Offset"

The model builds upon the generic market segmentation as a pyramid with Premium, mid-segment, and entry/low segments (Ramaswamy and Namakumari 2013).[6,7] Market segmentation is a common approach used by companies to target products and services. The characteristics within segments are:

a. Premium Segment (Rich…Super Rich)—companies can offer high differentiation and leverage existing brand equity
b. Mid-Segment (Strivers…Affluent)—companies offer wider range from affordable Premium to value offering and have options to creatively offer differentiated products and services
c. Entry/Low Segment (Seekers…Aspirers)—typically a commodity and price play with little differentiation.

One can lay out such a pyramid in each market and for each industry. The segmentation characteristics may vary depending upon the industry. Depending upon the category of business, the lines dividing these segments would also get fixed higher or lower. The idea of market segmentation in a particular market has been around for some years. Several researchers have also documented very specific company successes in India in various segments and product categories (Arnold and Quelch 1998; Little 2008; Govindarajan and Trimble 2012; Khanna et al. 2005; McKinsey 2012; PWC Strategy and Research 2012; Ramaswamy and Namakumari 2013; Venkatesan 2013). However, what is interesting is a comparison between the pyramids within MNC home market and India market. The idea of combining the generic segmentation pyramids and setting up a relationship between the markets is unique. This has not been commonly done in the past. This is also the main premise of this chapter.

The visualization of this phenomenon is shown in Exhibit 1. The pyramid representing the emerging market is offset in the vertical direction as compared to that of the home market. The bases of the two pyramids are at different levels and consequently the base of the different segments too. This phenomenon is referred to as "**Emerging Market (EM) Offset**" and the model is named **EM Offset Model**. The offset leads to two issues or **gaps** relative to the home markets.

The price points of Premium segment would be very different in the two markets. The difference is not just unidimensional on purchasing power parity and exchange rate equalization. This gap in between the tips of the two markets is arising out of a combination of several factors like people's lifestyle and culture, standard of living, per-capita income, and in general wealth and distribution of wealth in the countries in those markets. In the model, this will be referred to as **"Premium"** gap.

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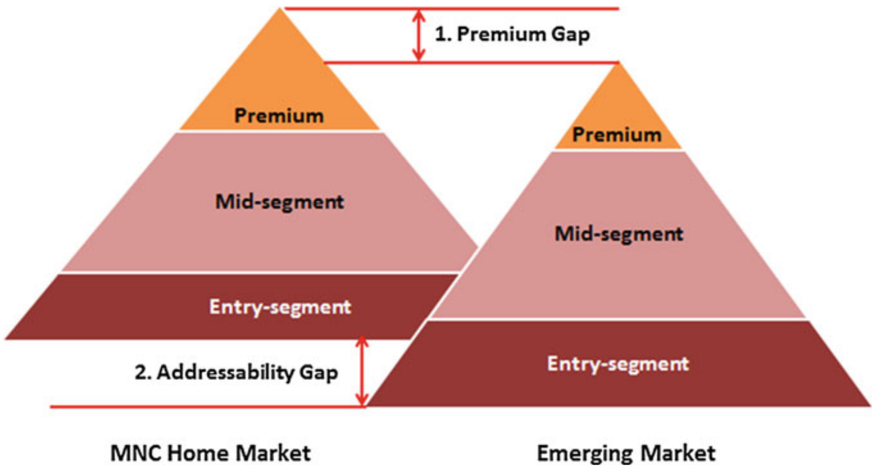
[6]Guide to Indian Markets 2006 by Hansa Research and Media Research Users Council.

[7]Customer Segmentation in Emerging Markets by Frontier Group—retrieved from http://blog.frontierstrategroup.com/2014/07/customer-segmentation-emerging-markets/.

Exhibit 1



Emerging Market (EM) Offset MODEL, Premium & Addressability GapS

Prepared by Authors

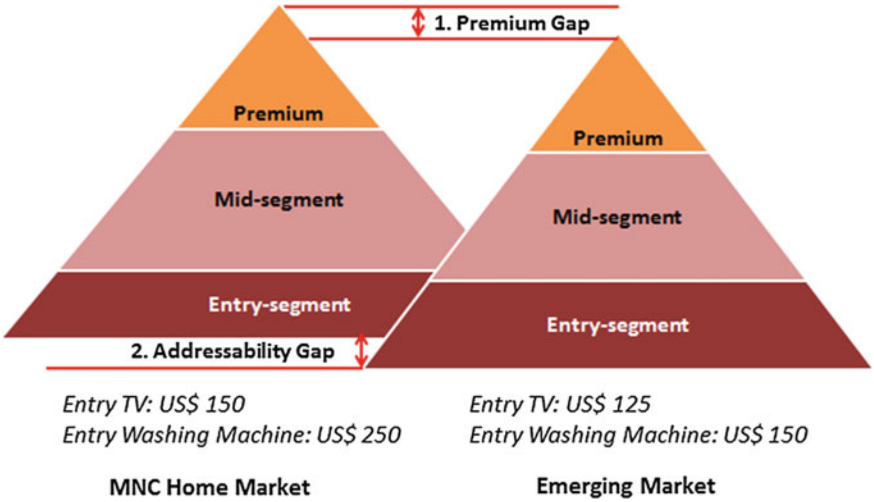
The gap between the bases of the two pyramids is a difference in the threshold of affordability for goods and services and is again a combination of factors like availability of affordable technology, adoption within the markets of these products or services, political history and development path adopted by the society and alternatives available thus becoming the addressable market. The entry-level price points for products and services within the two markets vary. This will be referred to as **"Addressability"** gap in the model. The EM offset should intuitively convey that what might have worked in home markets would not automatically work in India. The segments cannot be really equated between the markets.

MNCs are confronted with two critical challenges. The first is product positioning, and the second is pricing. There are stark differences in consumer behavior and affordability in the like market segments. Most often, mid-segment offering in a home market might acquire a status of Premium or just below Premium in emerging market. Great examples from automobile industry can be Toyota Camry or Honda Accord. MNC companies have to make strategic choices to get their products fit for a segment within the emerging market. The choices are between downgrading an existing product from a similar segment in home market to emerging market or upgrading an existing product from a lower segment in home market to meet with the need of upper segment in the emerging market or to come up with a completely new offering for the market much like a local player. The second challenge is to accept business performance parameters be it on growth rate, profitability, and returns which do not necessarily align to the benchmarks within their home market (London and Hart 2004; Nettesheim and Khanna 2016).[8]

In the remaining part of the chapter, the phenomenon of EM offset is described and the MNC approaches specific to India, from a perspective of reach to the market, brand positioning, and brand building are analyzed. Representative cases are explored from two business categories—consumer durables of lower value (white goods like washing machines, cooking equipment, and consumer electronics) and consumer durables of higher value (passenger cars).

Approach from MNCS—Consumer Electronics or Durable Market

Exhibit 2



EM Offset MODEL - CONSUMER ELECTRONICS OR DURABLE INDUSTRY

Prepared by Authors

8Opportunities and Challenges in the Indian Market: Lessons Learned from Dutch Companies in India retrieved from www.hollandinindia.org.

EM Offset Model Applied to Consumer Durables

In case of consumer durables industry, Exhibit 2 shows that EM offset is relatively small and consequently a lower Premium gap as well as Addressability gap (see Exhibit 2). For example, in case of TV as a product, the entry-level price point in both the markets is in the range of USD 99 to USD 150.[9] With the increase in price points, consumer expectations also progress similarly in both the markets along the segments. At the lower end of the market which was a stronghold of local players, the industry is seeing technology obsolescence of CRT technology. This industry being one of the fast moving and fast changing, local players are also forced to adopt newer technologies to stay relevant.

A similar story can be seen in business of washing machines or refrigerators. The entry price points for washing machines are around USD 250 in USA as opposed to USD 150 in India (see Footnote 9). The entry-level technology in the two markets is not too different. There are differences in consumer preferences about capacity of the machine. The technology progresses by adding more intelligence in the machines through sensors and electronics.

Of course in the consumer electronics industry, the utility and functional values are strongly linked to entertainment and information. Availability of original and local content plays a big role in faster adoption and growth in the market. India offers a huge variety of TV, movies, and sports content (both audio and video). The increasing affordability factor in the middle class coupled with availability of easy financing options has fueled the growth in the consumer electronics market.

Reach into the Market, Brand Positioning, and Brand Building

The Premium segment in consumer electronics was first captured by MNCs like Sony, Philips, Samsung, and LG due to their natural ability to access high-technology and feature-rich products from the home markets. However, because of the low EM offset and consequent lower Premium and Addressability gaps, MNCs have been able to gain market leadership position across all segments of the market (London and Hart 2004). In the washing machine space, we see three MNC players Samsung, LG, and Whirlpool along with one Indian player Videocon control more than 75% market share. All the above companies have their brands in the top 50 most trusted brands in India in 2015 (see Footnote 3).

Majority of MNCs have adopted an approach of "local for local" or "to be a new home market." The initial focus has been on sales and building channels for customer reach through network of dealers and customer experience centers. Almost all these companies focused on building awareness, positioning, and strengthening

[9]Consumer Durable Market Prices—retrieved from respective company and third-party e-commerce sites.

the brand. In cases, where brand was already well known, the focus has been on better connecting to the consumer, touching the aspirational emotion. There have been huge promotional spending through several channels whether sporting events, celebrity endorsements, or mass media (Govindarajan and Trimble 2012; Jagwani 2013; Khanna et al. 2005).

Contrast to this, local players were highly cost focused, but have had some limitations in terms of ability to access high-end technology in products or manufacturing thereby finding difficult to challenge the MNC in this industry. At best they are adopting the fast-follower approach. So clearly MNCs have found winning strategies across market segments in this industry.

In summary, when the EM offset is lower, and the Premium and Addressability gaps are again relatively small, the MNCs have embraced this wholeheartedly as a new home market. Hence, they have invested more on marketing and consumer connect, successfully leveraged their technology capability and global product portfolio, have invested in state-of-the-art manufacturing and quality to straddle across all three segments, thereby generating economies of scale for themselves.

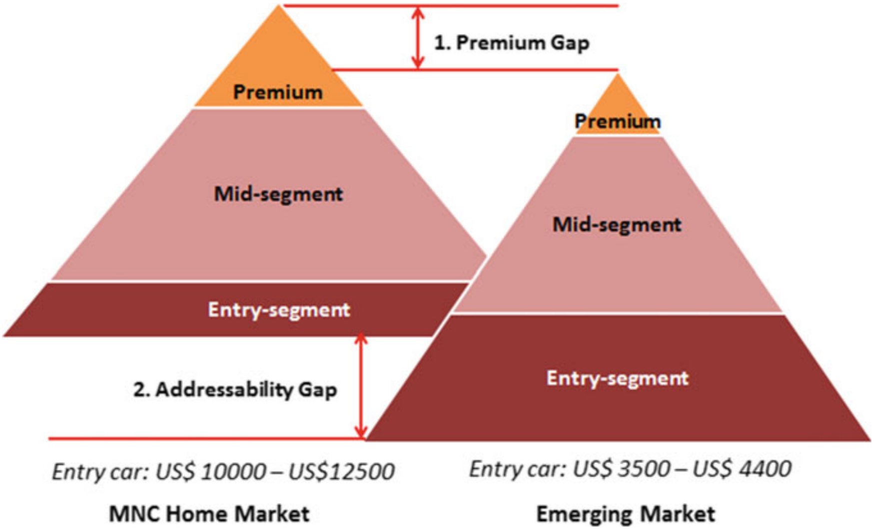
Approach from MNCs—Automobile Market

EM Offset Model Applied to Passenger Cars

In this case, the EM offset is quite dramatic and consequently the Premium and Addressability gaps are very high (see Exhibit 3). The definition of luxury and Premium in the home markets is far superior in comparison with Indian market. This product is driven by highly discretionary spend from consumers across all segments. Culturally in India, even an entry-level car is still treated as luxury when compared to other forms of mobility. Safety situation and regulations within city driving as well as on highway are far behind. The entire ecosystem lags the developed markets by few years!! A leapfrogging in this highly conservative and regulated industry is extremely challenging as compared to some other industries. Though the growth rate is high, the absolute number of units sold is still far lower. The size of the market across all segments is also very small in comparison which could be in the range of 1–2% of global sales for MNCs (Gupta and Shekhar 2010).[10]

[10]India Automotive Market Trends—LMC Automotive (www.LMC-Auto.com).

Exhibit 3



EM OFFSET MODEL - Consumer Durable Automobile market

Prepared by Authors

Reach into the Market, Brand Positioning, and Brand Building

In the Premium segment, local players are nonexistent and post-liberalization, and several neo-rich consumers were aspiring for luxury cars. This provided an opportunity for the MNC manufacturers for an easy entry into this segment. The latent demand bottled up in the last several years was to be met, and entry was relatively easy for players like Mercedes-Benz, BMW, and Audi. In the luxury segment, these have established leadership position (see Footnote 10).

However, the EM offset is so huge that the value-conscious mid-segment and a super-price-sensitive entry-level segment has posed a serious strategic challenge to all MNCs (Little 2008; Khanna et al. 2005; Pillania 2009; PWC Strategy and Research 2012). Many MNCs have taken the approach of either bringing their existing mid-segment products to fit to the emerging markets to gain initial foot-hold. In some cases, they tried to make the minor adaptations and tweaks to meet with the regulation need or a specific market need. Few have met with success, and many are still struggling to get the market share and earn a name as a credible player in the market. In some cases, the home market entry segment cars got positioned as mid-segment cars in emerging markets which again posed major hurdles like mismatch in expectations of the consumers. Within the mid-segment, many have been able to see little success only in the upper part of the segment and positioning as a superior vehicle in technology and robustness. Why is it so?

When it comes to pricing, there is a typical management conflict between local and global management on margin expectations and brand value. During business case analysis for investments, the hurdle rates used are again a major source of conflict between local and global expectations. Even after several years of operations, very successful MNCs are struggling with miniscule market share in a highly fragmented market in India (see Footnote 10). Entry level segment or mass market segment is far too value conscious and is much more of a challenge for most MNCs. The Addressability gap in mass markets of MNC home market relative to emerging markets gets even bigger, and the perceived value for money gets even more challenging. There are few MNCs which have been able to crack the code to become a leader in the market across segments. At best, they have been able to create special niches for themselves with few best seller models.[11,12]

In summary, when the EM offset is very high, and the Premium and Addressability gaps are again relatively large, the MNCs have been able to carve some niche for themselves only in pockets but not been able to successfully leverage their technology capability and global product portfolio in spite of investments in state-of-the-art manufacturing. Most of the attempts have been halfhearted and inconsistent in the longer term. To straddle across all three segments and see profitable growth has been very elusive for a majority of MNCs.

Conclusion and Recommendation

The EM offset model is a unique concept which describes the shift (usually a downshift) in the emerging market segments relative to the MNC home market. This offset in turn leads to a Premium gap, which depicts the relative distance between the price points within the two markets and the Addressability gap, which depicts the difference in the threshold of affordability for goods or services between like market segments. Two example industries were chosen to show the application of this model. The first one is consumer electronics which is characterized with fast-changing and rapid innovation cycles globally, with a low EM offset, and relatively lower gaps in Premium and Addressability. MNCs have been able to successfully leverage their technology depth and global product portfolio to make

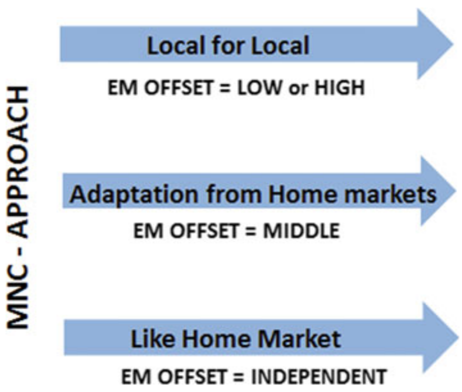
[11]Honda City India Success Story—retrieved from http://www.financialexpress.com/auto/news/success-the-city/223390/ http://www.hindustantimes.com/autos/the-city-over-the-years-how-the-sedan-established-honda-in-india/story-G99Fbn7nH7xdtCtqRc4tcK.html.

[12]Toyota Innova's Success Story—retrieved from http://www.domain-b.com/companies/companies_t/toyota_kirloskar/20050628_success.html, http://www.business-standard.com/article/companies/toyota-innova-s-sales-success-attracts-rivals-116091200986_1.html http://www.autocarindia.com/auto-news/toyota-innova—a-decade-of-dominance-394889.aspx

an impact across segments. They also have adopted strategies to embrace India as a new home market. The second industry was a higher value consumer durable industry, the passenger cars, which is much more conservative and with deep-rooted cultural linkage to ownership and usage. This market has a huge EM offset as well as big gaps in both Premium and Addressability. This potentially has been more challenging for MNCs to establish strong presence across segments. These are the two ends of a spectrum, and other industries fall somewhere in between.

The Exhibit 4 below summarizes the approach that could be taken by MNC managers relative to the EM offset. There are several MNCs who are able to crack the India code and have gained leadership position in the market. Many have not found that recipe. Some have been able to successfully occupy a niche position but have not yet been able to be a strong player across mid- and entry segments. There still will be a relative chasm between truly local companies and MNCs for some time to come in these segments. It may be possible to gain leadership only by finding that extraordinary customer value and by exercising a set of clear choices on how to address the challenge of EM offset, Premium and Addressability gaps. The model thus can guide MNCs' managers to get a better understanding of the market, its functional and environmental constraints, and then devise their strategic choices.

Exhibit 4



MNC MARKET APPROACH DEPENDENT UPON EM OFFSET

Prepared by Authors

The approaches can broadly be classified under.

a. EM Offset very Low or very High: Approach as if New Market (Local for Local)—all the key customer value chain elements to be managed locally with empowered management. More importantly, operational industry benchmarks like profitability, pricing, and brand value should closely align with the local market condition.

b. EM Offset in between: Adapt from Home Market—certain value chain elements like R&D and operational process definition can be managed at home and certain value chain elements like go to market, pricing, and brand positioning to be managed locally with empowered management.
c. EM Offset Independent: Could Treat like Home Market—majority of the value chain elements can be managed at home.

The Indian market is surely unique but offers huge opportunity for business growth in the long term. MNCs cannot ignore the most populous nation with a consistent GDP growth in the foreseeable future. The EM offset model will help in qualifying the challenges in the emerging market relative to home markets. This should drive decisions on product positioning, development, manufacturing cost structures, and operations model. This in turn has an impact on profitability and further business investments.

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Chapter 19
Challenges in Customer Relationship Management with Export Customers—India as a Specific Case in Emerging Markets

Prasad Mulukutla and Atanu Adhikari

Abstract Introduction of this chapter covers a brief historical background of India's macroeconomic transition since independence and how India gained prominence as one of the fastest growing emerging markets and why Customer Relationship Management (CRM) became increasingly important over the last few decades. A brief introduction is given to two types of business streams—Business to Business (B2B) and Business to Consumer (B2C)—followed by a discussion on salient differences in CRM in these two streams. Focus is then given in discussing CRM in B2B context specifically in relation to suppliers from India to export markets and export customers. Issue in context of a developed country vs. issue in context of India in the area of CRM is discussed. A CRM model called "ECP model (Expectations vs. Commitment vs. Performance)" is introduced specifically for B2B context. This model along with the views of industry practitioners was used to discuss the issue in context of India with two real-time examples in B2B CRM for export customers. The conclusion of the chapter proposes solutions and recommendations to overcome the issues and challenges. As the chapter is intended to provide an overview of issues in CRM corresponding to the immediate past, and prevailing business context, emphasis was given on discussions with management practitioners from the industries in gathering insights, challenges and solutions in the Customer Relationship Management rather than extensive literature review.

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A. Adhikari (ed.), *Strategic Marketing Issues in Emerging Markets*,
https://doi.org/10.1007/978-981-10-6505-7_19

Introduction

Over the last few decades, owing to their market size, and strong domestic demand, Brazil, Russia, India, China, and South Africa are considered as emerging markets. These markets—popularly referred to as "BRICS"—while having tremendous opportunities for growth, also have a number of challenges like creating innovation-friendly environment, labor market, human resource management, capital availability, achieving sustainable, and equitable growth. At a business level, companies in these markets are required to adapt and integrate with global partners in strategic planning, business processes, human resources, technology adoption, and management. While some aspects can be readily integrated with the global scenario, other aspects are endemic and may have challenges in integration. One such vital endemic challenge emerging markets face is in the area of "Customer Relationship Management (CRM)."

Before we understand what CRM is, or any attempt is made to discuss recent challenges faced by emerging markets like India in the area, it is important to know how India suddenly gained prominence over the last few decades as one of the key emerging markets and how it impacted the business environment in the country. While each of the BRICS countries has its own story in becoming emerging markets, if India is taken as a case, its macroeconomic metamorphosis since independence has to be understood. Independent India's macroeconomic transition can be broadly categorized into two periods: (1) Pre-liberalization period (1947–1991) and (2) Post-liberalization period (since 1991).[1]

In the pre-liberalization period, India has adopted a cautious approach in the overall macroeconomic policy and this was mainly spurred due to the apprehensions arising from colonial hangover. During most of this period, the State was responsible for generating growth. Domestic private sector and multi-national companies had a paltry role to play in nation building as domestic and foreign capital was scarce for such institutions and there were restrictions in creating capacities due to the licensing regime. This closed-door policy—purportedly aimed at self-reliance—largely created an economy dependent on government spending and inhibited the country from any meaningful import and export transactions.[2]

A major shift occurred in 1991 when India embarked upon macroeconomic reforms with an aim to integrate itself with the world economy and to raise its growth potential. Widely referred to as "liberalization," these reforms gradually removed restrictions on investment projects and foreign direct investment was allowed in phased manner in all most all key sectors. With gradual dismantling of import and export restrictions, and creation of industry-friendly policies such as easier access to capital, Indian companies could import high-end technology to

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[1]Bimal Jalan. "Balance of Payments, 1956 to 1991," in The Indian Economy—Problems and Prospects ed. Bimal Jalan.

[2]Rashmi Banga et.al. "Cautious Liberalization and Change in the Composition of Trade," in Twenty Years of India's Liberalization—Experiences and Lessons. ed. Rashmi Banga et al.

enhance capabilities and capacities, which could then be used in manufacturing of value-added products for domestic consumption as well as exports. Many domestic and multi-national companies have not only exploited India's domestic demand arising out of growing middle class but also established manufacturing facilities intended for exports to capitalize on "Low Cost of Production" that India offers. India's large engineering talent pool that possesses good English-speaking skills also aided in this regard. Such quantum changes in macroeconomic and business environment made India suddenly conspicuous to the world, and the country gained prominence as one of the fastest growing emerging markets.

Over the last two decades, owing to liberalization, Indian companies saw a tremendous increase in interactions with customers across borders. Concepts like "Customer Relationship Management" became increasingly relevant for management practitioners as well as companies because new challenges emerged when multi-national companies entered India and Indian companies export to companies in developing, developed, and emerging market peer countries. These interactions required understanding and aligning to business cultures and modus operandi of the trading partners across the world.

What Is Customer Relationship Management (CRM)

There are two main forms of business streams—Business to Consumer (B2C) and Business to Business (B2B). B2C involves business serving end consumers with products and services, whereas B2B transactions occur between businesses. B2B customers make rational buying decisions based on overall business value, whereas in B2C context, consumers buy products or services mainly on emotions and desires. Brand building in B2B is based on adherence to Quality, Cost, Delivery, and Service (QCDS) parameters and relationships, whereas in B2C marketing, brand is built primarily on advertising with an aim to invoke blatant and latent demand for the products and services. Another salient difference between B2C and B2B transactions is that the former is predominantly product-driven while the later is mainly relationship-driven.

CRM in B2C marketing would involve use of technology for analyzing customers' history and develop strategies to improve customer loyalty and achieve sales growth. CRM in B2C marketing mainly focuses on understanding consumer behavior by analyzing parameters such as Recency, Frequency, and Monetary (RFM) analysis, i.e., how recently a customer has bought a specific product, how frequently it is bought, and what is the value of the purchase. In B2C context, companies often would not have access to every direct consumer and hence such analysis through use of technology can play a major role in understanding the consumer behavior patterns and in undertaking promotional activities and personalize offerings to improve sales, customer retention, and customer loyalty.

On the other hand, in B2B marketing, CRM has a different context. A B2B supplier has direct access to customers. Technology could be used to analyze customer data and manage customer communications, but the main basis for achieving customer retention, customer delight, and sales growth is delivering the product with right Quality, Cost, Delivery, and Service (QCDS) parameters.

This work would focus CRM in B2B context and specifically in relation to suppliers from India to export markets and export customers. CRM is very important as any business should achieve customer delight to ward off competitive pressures, and in an age where most products are standardized with stringent customer specifications, customer service and customer management can be used as key differentiators in achieving sustainable competitive advantage. In a globalized business environment, there is no dearth of suppliers for customers and hence suppliers should constantly improve their capabilities to gain an edge over competition.

As customer management in B2B marketing involves extensive interactions with human beings and their perceptions—which are largely influenced by past and prevailing social and cultural affinities—the subject should be given due emphasis by social researchers, management researchers, and management practitioners alike in these markets. This chapter would focus on the prevailing challenges and then solutions would be proposed. As the chapter is intended to discuss issues in CRM corresponding to the past, and prevailing business context, it can be better understood with specific real-time situations. Hence, emphasis is given on discussions with management practitioners from the industries in gathering insights, challenges, and solutions in the Customer Relationship Management rather than extensive literature review. A new model is proposed specifically for B2B CRM, which is taken as a base to analyze specific real-time situations in Indian context.

Expectations Versus Commitment Versus Performance (ECP) Model to Understand CRM in B2B Marketing

The authors of this chapter propose a model called ECP (Expectations, Commitment, and Performance) model as depicted in Fig. 19.1. The purpose of this model is to evaluate the most likely customer reactions and outcomes under different scenarios where supplier commitment and supplier performance differ from customer expectations. This model is specific to B2B marketing and applies to domestic as well as export customers.

In this proposed model, (a) the level of customer expectations is same in all the different situations; (b) customer expectations are defined as the explicit requirements stated during the project conception and negotiation stage; (c) supplier commitment is the agreed terms between customer and the supplier after final

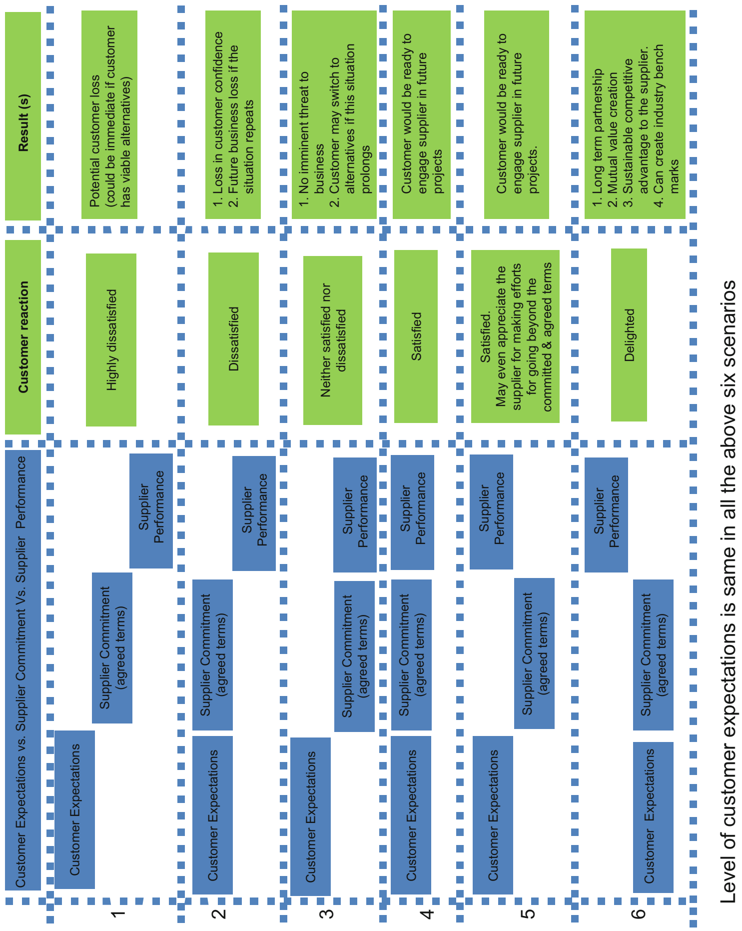

Fig. 19.1 ECP model—customer expectations vs. supplier commitment vs. supplier performance (Prepared by author)

negotiations; (d) supplier performance includes performance on parameters of Quality, Cost, Delivery, and Service; (e) if the supplier performs above the customer expectations, it is understood that the supplier has also satisfied the implicit/latent expectations.

Six different scenarios are highlighted in terms of what supplier has committed and performed against customer's explicit expectations.

1. In scenarios 1 and 2, supplier performs not only lower than customer expectations but also lower than agreed terms. In scenario 1, however, the supplier negotiates the terms with the customer and performs lower than the agreed terms. This could lead to a highly dissatisfied customer and a potential customer loss if an alternative is readily available.
2. In scenario 3, supplier negotiates the terms and meets the agreed terms but lower than customer expectations. Here, the customer may neither be satisfied and nor dissatisfied. While there may be no imminent threat to the supplier from competition, the customer may consider an alternate supplier—if available—with better commitment terms anytime.
3. In scenario 4, the supplier agrees in full to customer expectations and performs in line with the agreed terms and customer expectations. This would lead to customer satisfaction. Subject to consistent performance, customer may involve the supplier in future projects.
4. In scenario 5, supplier initially discusses with the customer, negotiates and finalizes the agreed terms and performs better than the agreed terms. This can create a surprise factor because the customer realizes the efforts made by the supplier in improving capabilities to go beyond the agreed terms and match their expectations. This would not only establish credibility with the customer but also can help establish long-term trust.
5. In scenario 6, the supplier performs beyond the customer expectations and the agreed terms. This would be a stage of customer engagement where it will not only lead to customer satisfaction but also would lead to customer delight. The customer would start to view the supplier as a partner at this stage, and long-term partnership can be forged.

Suppliers who operate between scenarios 1–3 must focus on evaluating and improving their capabilities in QCDS parameters. Benchmarking direct competition would help understand the overall industry capability and the gap that they have to fill to catch up with the competition. Suppliers falling in scenarios 4–5 not only can improve their capabilities further but also have an opportunity to create benchmarks for the industry and create long-term partnership with the customers to gain sustainable competitive advantage. Scenario 4 and 5 are starting points toward a journey to reach customer delight. Scenario 6 is where long-term and sustainable mutual value can be generated to both the supplier and the customer. The supplier can then become an industry benchmark, and customer would view the supplier as a partner.

Issue in Context of

(a) Developed Countries

Business discussions between customers and suppliers in developed countries are more structured. Customers in these countries give emphasis on cogent planning and adopt a collaborative approach with suppliers with an aim to reduce project lead times and achieve desired outcomes while minimizing costs. Suppliers in these countries would not hesitate to bring forth limitations, potential bottlenecks and negotiate the project scope and terms at the project conception stage. This allows the suppliers to set the expectations in a more realistic manner. Based on the agreed terms, performance standards are clearly and mutually defined. Setting such clear and mutually agreed metrics allows lesser ambiguity. Once the terms are finalized, the suppliers then endeavor to deliver the product with the right quality, at the right time, and at the right price on the agreement terms. Apart from adhering to Quality, Cost, and Delivery (QCD) parameters, the suppliers work to provide good customer service and support in an attempt to achieve customer delight. Customers evaluate the suppliers based on the defined metrics and any deviation—upward or downward—to these metrics would lead to customer satisfaction or dissatisfaction. Such collaborative and structured approach generally results in better coordination, greater clarity and also allows both customers and suppliers to focus on long-term and breakthrough improvements rather than attend unproductive discussions in complaint resolution.

(b) INDIA

Traditionally, Indian businesses have always operated with an orientation that the "customer is always right" and Indian customers also expect and accept this orientation from suppliers. Such approach often results in heeding to customer demands such as committing to aggressive delivery deadlines, accepting tighter tolerances, and committing to lower prices. This could result in the supplier not being able to meet agreed terms, thereby squandering key company resources on customer compliant resolution, facing erosion of bottom line and not being able to meet the customer expectations. But because of similar cultural affinities, suppliers manage the customers mainly on relationships and customers are also inured to such outcomes with the suppliers.

In spite of having an opportunity to discuss and negotiate terms at the project conception stage, most Indian suppliers often adopt the same manner with export customers as they adopt with domestic customers resulting sometimes in major gaps in expectations vs. commitment vs. performance. While there are Indian suppliers who follow upfront approach in customer discussions, this observation applies to general context of most Indian suppliers who do not leverage the opportunity of frank discussions with export customers.

Mr. R. Narayanan who served as Business Head for major automotive ancillary groups in South India shared his experience as follows:

In one of his previous organizations, the JV partner was ready to wind up his association due to lack of transparency and trust backed up by poor performance. However, over the years, the relations strengthened based on close communication, performance enhancement and creating confidence in the management team. The JV partner agreed to increase the stakes and expand their operations including export opportunities.

He also summarized his experience in domestic and export customer management as follows:

> *Domestic Customers are more flexible and compromising in terms of Quality, Cost, Delivery, Service (QCDS).* ***Relations can influence performance parameters****. Export customers are more demanding and expect complete compliance to agreed terms. They have lesser tolerance for failures and ambiguities. Export customers are more comfortable in dealing with suppliers who have systems approach and requiring minimum follow ups.* ***Performance parameters influence the relations.*** *This is a major difference.*
>
> *The major challenge is transparency in communication and deliverables. Export customers read directly and not in between lines. Honoring commitments is the key. Be it technical or managerial capability it is better to bring the gaps upfront to the forefront and jointly work for the remedial actions with a time plan. In most cases this would be global competition and the winning factor would be configuring the value chain for assured performance.*
>
> *Try to understand their value system and their cultural fit. What is right with domestic customers may not be appropriate for export customers. Hence, understanding these differentiators is critical. Manage communication & relationships professionally & personally and create trust for long term relationships.*
>
> *It should be noted that Mr. Narayanan's reference to export customers is on customers from developed countries.

Two real-time situations are taken to describe the issue in context of India and analyze them using the ECP model to evaluate the customer expectations vs. supplier commitment vs. supplier performance. The first situation elucidates an undesirable situation where the customer was left dissatisfied due to disparity in performance vs. agreed terms and customer expectations. The second situation highlights a most desirable situation where the customer was delighted as the supplier performance exceeded the agreed terms as well as the customer expectations.

(c) Real-Time Situation #1:

A supplier from India exports machined casting components to a customer in Europe. Historically, the castings were packed in individual bags by the suppliers to all their export customers for increased protection of the components against corrosion and moisture during the transit and storage. The customer wanted the components to be packed in bulk with an aim (1) to reduce time to unpack the components for assembly in the assembly line and (2) to reduce the disposal of packaging material. Customer asked that the bulk packaging be implemented based on their experience from a European supplier. The Indian supplier knew that the bulk packaging from his competitor is sustainable because of the more benign inland transit conditions within Europe as compared to more aggressive sea shipments conditions in their case. The Indian supplier from his past experience with another European customer was also aware that any such change in the packaging would cause corrosion on the components but accepted customer demand with the fear of potentially losing share to their European counterpart. As the initial trial shipments in small quantities were successful, the new packaging was adopted and severe corrosion occurred after a few shipments.

If ECP model is adopted, the outcome in the above situation falls in scenario 2. The supplier has accepted customer requirements and when the agreed terms are not met lead to customer dissatisfaction. This also fits with Mr. Narayanan's comments on frank communication on any technical or managerial constraints. Here, the absence of transparent communication or a negotiation process from the supplier was due to the orientation that the customer is right and the supplier had the right intention to satisfy customer requirements. However, it was ultimately the supplier who faced customer dissatisfaction for not delivering on the committed terms.

While the requirement of the bulk packaging was from the customer, the supplier should have highlighted that the proposed changes to packaging are not tenable based on previous experience. If the supplier had discussed the constraints, negotiated the continuation of the current packaging, loss to them as well as the confidence loss to the customer could have been avoided and expectations would have been more realistic. The supplier then would be in scenario 3 where the customer is neither satisfied nor dissatisfied. The supplier could have internally explored an alternate solution and proposed for trails and introduced to the customer if viable. The customer then would have appreciated the efforts made by the supplier in fulfilling the customer's objective. This could have placed the supplier in scenario 4 or 5, where customer satisfaction could have been achieved and if the alternate solution were successful, the supplier could have even achieved customer delight.

(d) REAL-TIME SITUATION #2:
An Indian MNC was in discussions for export of a new heat exchanger model with a company in Sweden. At the project conception stage, the Swedish customer and the Indian supplier discussed and agreed for a specific heat exchanger design. The cost, delivery, and all the other parameters were discussed and agreed as per this design. After the agreement, the supplier's project team through value engineering approach came up with an innovative idea of creating three mother base tanks with end connectors thus reducing the number of tanks from eight to three. The new design not only reduced the material cost but also reduced the tooling cost and reduced the final price substantially. This innovation also significantly advanced the delivery time and improved the overall quality parameters as it simplified the design. When the supplier presented this design to the customer, the customer was extremely delight and appreciated the supplier for going beyond the agreed terms to provide overall value in Quality, Cost, Delivery, and Service (Meenakshi 2017).

If ECP model is adopted, the situation aptly fits in scenario 6. Here, the customer and supplier agreed on conventional terms for Quality, Cost, Delivery, and Service that are typical to any heat exchanger product. However, supplier made efforts at the design stage to improve overall quality parameters, reduce cost, and improve delivery lead times. This catered well to the implicit expectations of the customer leading to customer delight. The supplier not only created a "wow" factor but also gained sustainable competitive advantage against competition. After this project, the supplier followed similar approach to a few other products and, due to consistent outperformance, was able to gain new projects and establish a long-term relationship. The supplier in a way also created a benchmark for competition to follow.

Conclusions and Recommendations

The strength of Indian businesses is that they put customer as top priority and are forthcoming to make all efforts to satisfy the customer. This orientation naturally makes them customer focused and better placed to provide best services to the customer. Where substantial focus needs to be given is—especially in handling export customers—in setting realistic expectations and meeting the agreed terms. It has to be understood that cross-border customers may sometimes expect conformance to certain practices based on their experiences from suppliers of their geographies, which may not be applicable to suppliers from other geographies. Indian suppliers should objectively evaluate the feasibility of any customer proposals and commit to implementations only when they are convinced about a successful outcome.

Transparent and frank discussions at the project conception stage are very important in setting the correct expectations. Discussing limitations, negotiating, and evaluating alternatives is not going against the customers but is the first step in being transparent and a right step in developing trust. Support of suppliers' top management to the project managers and marketing managers would be very crucial and would empower the middle management to identify potential bottlenecks, discuss with customers, and negotiate the right terms at the discussion stage itself. Verbal and written communications should be clear and should avoid ambiguity. This is especially important with export customers because the scope for miscommunication or misunderstanding can be high due cultural, social and linguistic divergence.

All the stakeholders at the supplier end and the suppliers' supply chain should be involved from the initial stages of the project to ensure correct linkages and continuity of customer expectations. The front-facing team to the customers like the marketing managers or project managers should communicate the customer expectations with the design, production, and quality teams and constantly communicate for a two-way feedback. Internal team's feedback on any limitations or delays should be gathered and communicated back to the customers in a timely manner. Top management should facilitate the discussion and support the teams in case of any valid constraints.

Rather than communicating what the customer would like to hear, it is important to communicate the real status of the projects. Providing constant feedback, immediate communication of any unforeseen delays with an action plan for resolution would always be appreciated by the customer. Such endeavors would not only help build trust but also help build the long-term capability of suppliers (Rajesh 2016). Adherence to agreed terms would first lead to customer satisfaction.

Once customer satisfaction is achieved, the focus then can be on achieving customer delight. Achieving customer delight can happen by understanding the business cultures of trading partner countries and developing a thorough knowledge of both explicit and implicit customer expectations. While explicit customer expectations are laid out in agreed terms and would help achieve customer satisfaction, meeting the customer's implicit expectations would lead to customer delight and creation of mutual value. Training all employees in the value chain about customer orientation is a key to make the customer expectations clear to all the internal stakeholders. This should occur at the project conception stage and should occur for each individual project. Training on economic, cultural, and business aspects of the customer geographies would also help in mapping the implicit customer expectations.

Customers from the developed countries should also be mindful of the endemic challenging most emerging markets face, which may not be faced by suppliers in the developed world. What may be applicable to suppliers from their geographies may not be fully applicable to suppliers from other regions. Value generation can be mutual and can be sustainable only in a win-win situation and only when long-term partnership is kept in mind.

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Chapter 20
Rising Ethnic Nationalism and Protectionism: Impact on Global Companies and Brands in Emerging Markets

Ranjit Mohan

Abstract This paper looks at the sociopolitical trends over the last few years and tries to examine the strategic marketing challenges arising out of protectionist sentiment driven by a sense of nationalism in many regions globally. It looks at the scenarios leading to the anti-globalization sentiment and looks at how this situation has been converted to opportunities by local companies in many emerging geographies. Conversely, it also dwells on the adverse impact on global or multi-national companies. It attempts to bring out questions that Chief Marketing Officers (CMOs) of global corporations/brands should answer to be able to have their companies and brands effectively face such challenges in these markets, remain competitive and still relevant given this volatile environment.

Introduction

Over the last few years, especially after the 2008 market crash, people world over have been witnessing an increase in calls for nationalistic and many a time protectionist rhetoric in their respective regions. Few recent examples from the developed economies of the world are as follows: V. Putin using national identity as a potent instrument in his state policy; the British vote on moving out of the EU regional block; Donald Trump's election as 'POTUS.' Such sentiment has also been seen in developing countries too whose economies are on a slightly different trajectory in comparison with the developed world (China, India, etc.). Since a long time, globalization and anti-globalization advocates have tried to look at the main factors and perceptions that give rise to such an inward-looking sentiment and resentment against global brands, especially in developing countries. GDP projections indicate a contraction for countries like China and a slow growth rate for the developed regions over the next few years (Kearney 2016). As per International

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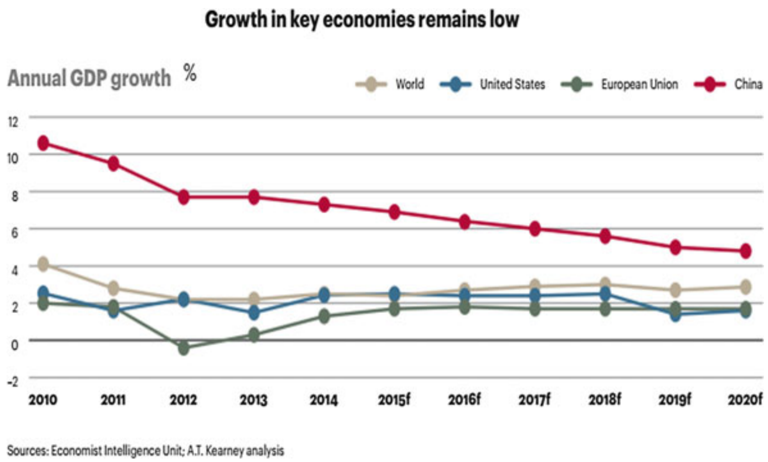
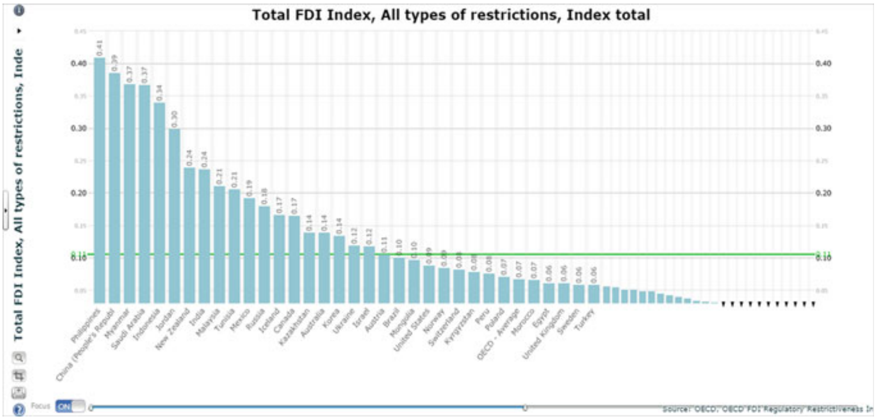
A. Adhikari (ed.), *Strategic Marketing Issues in Emerging Markets*,
https://doi.org/10.1007/978-981-10-6505-7_20

Monetary Fund (IMF) records, real GDP growth has slowed down to about 3.2%/year in the 8 years after 2007 compared to a rate of 4.5%/year in the 8 years ending with year 2007. This slowdown, though not appearing as a sharp decline, paired with rising inequality and future insecurity could probably justify the rising trend of ethnic nationalism. In such an atmosphere, global companies and marketing of global brands are viewed by many across these regions unfavorably due to their perception about these around the following areas: (1) *Impact on culture*: Global companies and brands are perceived to be insensitive to local culture and ethos; (2) *Impact on people*: They are considered to be solely focussed on high business gains and prioritize it over community gains; (3) *Impact on food & living habits*: Negative impact on traditional healthy food/eating habits; and (4) *Sustainability*: Viewed as short-term gold diggers rather than having a focus on long-term sustainability. Previous papers have also examined such challenges (e.g., Witkowski 2005; Khan 2015). It is hence imperative to examine the impacts of this renewed and fast spreading focus on ethnic nationalism and whether this influences consumer attitudes. The aim is to verify and understand the implications for marketers, impact on global brands, compare and contrast on how global brands are faring in this environment vis-à-vis local competing brands.



Strategic Marketing Issue: Rise of Ethnic Nationalism/ Protectionism: Impact on Global Companies and Brands

The tilt toward ethnic nationalism and protectionism visible across the globe raises business and marketing issues as these sentiments influence opinions about global companies and brands. Countries are looking to now create barriers to across-the-border activity by coming up with trade barriers, immigration policies, regulatory finance frameworks, etc. Loss of jobs, stagnation, and decrease in wages in developed economies have fanned this 'look-inward' sentiment more with extreme left-winged and right-winged political parties gaining ground in many regions of the world. This political space has now been occupied due to the popular belief that the current global economic model automatically does not bring prosperity. This is not a phenomenon restricted to the developed world but emerging markets like Russia, China, India, Brazil have seen trends where demand for international brands decreases during periods where the ethnic nationalist sentiment is high. Domestic substitutes are preferred with the intention to support local companies and brands. Many ruling dispensations have started bringing in protectionist policies that bring trade regulations, currency devaluations with the sole intention to achieve geopolitical objectives. Since the financial crisis of 2008, as per Organisation for Economic Co-operation and Development (OECD), there have been over one thousand trade restrictions implemented by G20 countries/blocs out of which not more 2.5% have been lifted since. These measures coupled with shifting consumer preferences have resulted in further decline in international trade, and MNCs have slowed down their expansion into new foreign markets preferring to wait and watch. Senior executives and CMOs are now leaning on political scientists and geopolitical experts as they decide on future strategies to stay relevant and competitive in the global market. Marketing professionals have to look at new ways to stay relevant and competitive against the reinvigorated local brands and fight hard to retain mind share. These companies have to prove to be local enough relevant to their region/country of operations and work with all local stakeholders to help position itself as the brand of choice even in these extraneous circumstances.



Discussion

As per a study conducted by the McCann Worldgroup (referred by Lindner 2016) covering almost thirty thousand respondents across twenty-nine locations worldwide regarding their attitudes, beliefs, and values as they related to an increasingly global world, people were segmented into many buckets, two of which make up over half of the globe. A younger, dynamic, digitally literate, lot of people with a global outlook on one side (~35%) and on the other side, a slightly aging, not so digitally literate people who would prefer stability and seek return to higher wage days. This differing mind-set in the population is also tied to the regions they belong to and the state of economy in their regions. Rise of country pride in a location like China is reflected by almost 34% of people who consider 'Made in China' synonymous with high quality (compared to 16% of the rest of the world). Citing very recent examples of how national identity and ethnic nationalism have played a part in framing consumer opinion impacted global companies and helped local competitors gain foothold in their respective markets:

- After The Hague Ruling on China's sovereignty in the South China Sea, people used online forums to call for an official boycott of Filipino products that received quite a few hits and managed to hold center stage in the mind of consumers.
- A boycott of Chinese firecrackers inspired mostly by word of mouth gained momentum ahead of Diwali—the festival of lights in India. This was a reaction to China's overt support to Pakistan, a country India accuses of sponsoring cross-border terrorism. Suppliers and local distributors of Chinese firecrackers felt the pinch of such a call.
- Another good example in the Indian context is the Patanjali products' success story. Patanjali was founded by Baba Ramdev a yog guru in 2006 and has competed fiercely with the mightiest FMCG companies for market share. This success has been attributed to the positioning of these products by associating the products with traditional Hindu practices and by invoking a sense of national identity. This is quite similar to the affinity for Halal cosmetics in Indonesia. Patanjali's sales figures tell the story: A look at the numbers illustrates the rapid strides that Patanjali toothpaste 'Dant Kanti' has made with revenues of ~INR 4.5 billion (US$66.7 million) in year 2015–2016 and its shampoo and hair oil, 'Kesh Kanti,' raked in INR 3.5 billion ($51.7 million) in less than a year. On a mission to reach INR 100 billion in revenues, it is fast catching up with MNC giants like Nestle, Colgate, and P&G in the backdrop of strong ethnic nationalistic sentiment and is also being supported by the ruling dispensation in its growth path.
- A similar example is being played out in a developed economy like the USA. Many tier1 global IT companies (of Indian origin) are facing regulatory scrutiny over public opinion being built based on a perception that these companies are taking away American jobs and instead getting foreign workers to do those same jobs. This perception has gained more ground over some time, and as a result,

some of these IT companies are facing litigation, customer backlash, and loss of business in some cases. These companies are now trying hard to localize their brand appeal and create a brand image that is viewed by the American people more favorably.

Hence, the big questions for global brands and CMOs' at MNCs are these:

- How does one ensure that global brands find a way to stay relevant in spite of these vagaries?
- How can they ensure that their brand is well recognized despite borders and geographical boundaries and cultural differences?
- What should they do to be recognized as a truly global brand that the consumers see in good light?

MNCs and global brands have to build a marketing strategy that helps position them:

- To be in harmony with the local culture, ethos, and practices of the country/region of operation;
- As a brand/company that is seen that is responsible toward the community that it operates within;
- To be recognized as a brand/company that is serious about sustainable development;
- As a brand/company that is truly local in its connection with its customers but yet global enough in its appeal and outreach.

Recommendation

Given the latest trends and the current global economic situation, global companies will have to steel up and deal with markets that vary by economical resilience, different types of governing dispensations, and rapidly evolving disruptive technologies. In the age of digitization, digital information highways will be the pathways to a well-knit integrated setup. These will open up new avenues and mechanisms for trade and exchange of goods and/or services. Process and technology innovation, agility and responsiveness will need to be built as key capabilities that can be relied upon to tweak offerings fast enough to target the market that the company/brand operates in. Strategic decisions will also need to account for geopolitical realities and future economic outlook across regions in which the company wishes to operate. In countries like India and China, brands such as KFC and McDonald's are well known as American origin brands. Very often, they become easy targets in case of geopolitical tensions involving the USA. But, credit to these brands, again as they have localized their existence these markets that most of their consumers feel they are dealing with one of their own too. This plays a big part in handling tricky scenarios that arise due to geopolitical tensions.

CMOs of global corporations and brands will need to rely on the following aspects to chart their path in such a volatile global environment.

Build strong brand values that resonate with their consumers that are centered on some universal truths that are relevant to the times and beyond boundaries. Harmonize offerings to adapt to the local culture and sensitive to the needs of the operational location. Be on top of the local–global governing rules for the product categories that the company wishes to operate in. Strive to embody sustainable business practices to avoid being perceived as a 'gold digger' only and to be viewed as somebody who is not an exploiter of the community's natural resources but serious about developing business practice that will help optimize the use of natural resources over a period of time. Previous research has also elaborated on the need to focus on 'glocalization' (e.g., Friedman 1999; Khondker 2004; Foglio and Stanevicius 2007). Very importantly, there has to be continuous communication, propagation, and reinforcement of the brand proposition and brand value that is global yet nuanced enough to meet local expectations. Marketers have to consistently focus on the following to get better than their local counterparts:

1. Understand their customer well enough to be able to spot new customer segments, inherent needs, unfulfilled needs, and willingness to pay. Leverage technology innovations to create more efficient and profitable value chains (e.g., use mobile apps or Web portal-based marketplace to directly reach customers instead of only relying on using the traditional distribution channels).
2. Develop social media channels and cells to actively build and monitor its online footprint. Engage actively with the online community through promotions and interactions, build and monitor online social reputation, invest to have a crack team defend, and neutralize any attempts to malign the company/brand in this ever-growing influential space.
3. Hire and retain the best talent, build layers of competitive advantage to be able to expand rapidly in these markets, and defend their turf in face of local competition.

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Chapter 21
MNC's Approach in Emerging Markets

Divyansh Alleppa

Abstract "In future there will be no emerging markets"—This is one of the tag lines used by HSBC bank. Emerging markets provide a unique adventure to many big corporations. On the one hand, they hold the vast untapped resources and markets that can be exploited, and on the other hand, they hold the knowns and unknowns that may prove detrimental to the firm's reputation and profits. These areas cannot be applied to the same recipe that was successful in other developed markets. The culture, sentiments, and sociopolitical volatility play a major role in timing and volume of the projected business. In the world where protectionism is replacing globalization, when NAFTA and WTO treaties are being challenged and Brexit is being voted in, emerging markets are the most obvious options for MNCs to be ventured into. Those who choose to be varied of these may in turn be losing the future opportunities. Going in too early and too aggressive may also backfire against them. All these are the reasons to consider the importance and impact of emerging markets across the world. This report will cover what all are emerging markets and what are the challenges and prospects these markets hold and is it worth the risk. We will also talk about various scenarios that failed and ones that worked.

Introduction

Major American/European MNCs generate their major profits from developed economies. Developed economies are mainly capitalist in nature that favor industrial growth and trades and have consumers with purchasing power to provide the needed sustained growth. Over the period of time, these developed markets become saturated, and as industries mature, the margins are lowered. In a typical "Red-Ocean" scenario, the competition increases, and with number of players in market, the survival is more on innovation and promotion. Emerging markets are

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A. Adhikari (ed.), *Strategic Marketing Issues in Emerging Markets*,
https://doi.org/10.1007/978-981-10-6505-7_21

the ones defined by the places which are having some aspects of developed markets but still not have fully adopted the standards and regulation of a developed market. Various trade agreements such as EURO zone, NAFTA, and WTO have helped MNCs by introducing the much needed standardization and ease of laws and regulations to do business in these areas. However, still a question is out there, i.e., to enter the market or not.

There could be a number of reasons why an organization chooses to enter into emerging markets. Many enter for the tag of Growth Generator areas. During 2001–2011 in Coca-Cola, USA and Canada have seen almost a flat growth in per capita consumption of beverages, whereas Brazil has seen a 63% increase in per capita consumption. This just shows the potential of future as well as current growth possibilities. Sociopolitical situations play a major role is swinging the consumer interests away from products and services that are being offered. Many multinational retailers happen to be cautious while entering Indian markets as they were being tagged as ones who take business away from Small and Marginal Retailers (SMR). A foreign product may not have the required market maturity to provide the necessary leverage that it had in developed market. A good example is how new Apple phones were provided at $199 provided a credit check and 2-year commitment with the service provider. These supporting services are not present at this mature stage in emerging markets to be leveraged.

MNCs approaching emerging markets should consider the 4 Ps as diligently as in other markets, and the threat of substitutes and cheap imitation will always pose a challenge. Also, local knowledge of customs and business cultures is important. Most of these economies are hotbed of corruption and money laundering. Indulging in these activities is going to be a cause of reputational damage. Ignoring these altogether is a difficult decision as there will be political and local resistance to products and services. In order to grow in emerging economies, one should have all these aspects also considered with equal weightage.

Strategic Marketing Issue

1. Slowdown in economy—Early 2000s saw a strong front of BRICS to show that they are also lucrative business areas. As the developed countries struggled with growth and then halted by 2008 financial crisis, the emerging economies were also not that isolated and did not show expected growth pattern lucrative for investments. In a weak market distressed opportunities to be exploited by investing in assets during negative sentiments so the firm is prepared for next growth cycle.
2. Regulatory changes—Countries in BRICS have started overhauling their regulatory systems to be in line with global and developed markets. Changes in the trucking regulations in Russia and schemes in India that push for less of corruption and efficient use of resources have started. However, these will take time to materialize and may bring their own bottlenecks to ascertain. Firms entering

this developed market should be having the best industry practices to begin with else falling into fines and punishments.

3. Sociopolitical changes—In countries like India and Russia, there is strong push to use the local and homegrown products. MNCs will face tough task to convince people that their products are superior and in line with local cultures and offerings. The firm should enter showing that it is actually contributing to national capital and leveraging the existing frameworks. The place aspect of the product or service should highlight the local aspects.
4. 4 Ps—The required traction will be different in the 4 Ps area of the business, as companies will have to leverage different promotions and placement offerings. For example, Honda Civic is an entry-level sedan in the USA, while in India same product is at a C-segment.
5. Local talent/skill—Each region will have its own skill/pool that can be leveraged. Local laws often prove detrimental example of Tata Nano when a production unit had to be moved to a different location as local government was not allowing this to happen. These cause additional strain in the supply chain and final profitability of the organization.
6. Local levy and protectionism—Many states and countries put in extra levy to help support local businesses these taxes and production cap often hit in the number of units to be imported and exported, e.g., taxes on imported goods and taxes on interstate transportation. These can be avoided by having a small assembly plant near target market.
7. Make in India—This is one of the policies of government that was initially intended to help Indian manufacturing sector in the long run; however, in the short run it is harming. As all the manufacturers now should have some percentage of components from Indian manufacturers, either the quality is compromised or there are instances of same product being imported and repackaged and resold at a higher markup. It would be advisable to factor this cost in production or build capability to counter it.
8. Imitation and cheap local substitutes—Emerging markets have low control on things like copyrights and legal system. The products and services get copied, and cheap imitations flood the markets very fast. Swiftness of entry, clear branding, and value proposition set the firm apart from its local substitutes and imitations.

Developed Countries Scenario on Strategic Marketing

Same scenarios have different weightages in developed economies.

1. Slowdown in economy—Although the economy is slowing down, there is not much reduction in the demand. The overall demand is being slowed down, and these threats can be managed with reduction in existing production. Future profitability can be attained by moving the production unit to low-cost regions.
2. Regulatory changes—All regulatory changes are mainly centrally managed with open banking policies fully represented by different agencies and trade agreement. North American Free Trade Agreement is an example that sets up the free

trade between different North American continent countries. FATCA agreement —banking industry is facing a fundamental change on how they do business by adopting globally standard trade and compliance policies.

3. Sociopolitical changes—Developed market places like UK, USA, and Europe have got a more of less homogeneous business and cultural environment. This gives the advantage of large consumer base with little product variation.
4. 4 Ps—The homogeneous business market requires a uniform 4Ps setup.
5. Local talent/skill—Developed regions provide better infrastructure and faster movement of man and material. With Euro zone and other free trade areas, this provides a junction point of fast exchange of goods, and tax-free zones help setting up fast clearance of customs and goods.
6. Local levy and protectionism—Developed market discourages any local levy that will cause significant difference in end prices of the final products. This way any product/service is not favored by local laws. Prior to Brexit, EURO zone created helped in this system.

Discussion

To learn about issues and challenges on strategic marketing in emerging markets, it is best to study about not so successful stories. In early 2000s, HSBC bank started with a campaign of increasing its footprint and being present in all the emerging markets. With the global economy slowing down and promise of bigger markets were given by BRICs. HSBC ramped up its international presence by opening up in many markets, soon to be named as world's local bank. In this rush of expansion, the bank acquired several local small banks in Mexico as well. These banks were working in full compliance with local laws that were actually laundering money for Mexico–US drug cartels. Over a period of 4 years, several drug-related activities were funded by accounts from these banks. When US department of justice picked up investigation of these drug activities, they found the HSBC Mexico bank in fault of not checking several policies required in the USA to be compliant with laws such as FATCA and CRS. This resulted in bank being fined 2 billion dollars and also condition that it will apply all the checks and means to improve its customer identification and money laundering checking activities.

World's largest retail store wal-mart entered agreement with Bharti enterprises. This was suppose to be the most groundbreaking deal in retail space as it would introduce the global retail giant in India. In 2007 when this deal was announced, the Indian market was still not fully ready to accept big named retail outlets for everyday and economy products. Large-scale protests were raised, and lobbies tried to block any progress in this area. The sociopolitical establishment took it as a threat to the interest of local and small-scale shop owners and farmer. Also to proceed with legal approvals, a lot of back office and kickback payments were against the work ethics of the businesses involved. This deal was ended with a lot of investments being declared as sunk costs. Marks and Spencers on the other had made a successful entry into the Indian market. They not only did a thorough understanding of the market risks but also spaced their entry in a cautious yet clear manner. It requires more than just entry into market with big bang or a tactical maneuver.

One of the key stumbling blocks in preparing strategy and understanding is lack of reliable data. The inadequacy of sound data gives the problem of reliability of proposed solutions and also at times gives very unexpected results, and the correlation among the data points may not be identified. This is best quoted in *"Alcohol And Emerging Markets" by Marcus Grant*. This lack of data adds another layer of variant that reduces the confidence in implementing policies and procedures. As a result, a lot of local knowledge and guesswork take place of a calculated approach.

To overcome a major social appeal in emerging markets and get acceptance on a more community levels, the business groups can engage in social works as explained in the paper "Business groups and social welfare in emerging markets: Existing evidence and unanswered questions.[1]" These business groups engaging in social activities help gain acceptance of local population and establish the brand not as one taking jobs and business away but supporting communities. A good example is company CYIENT, and when it opened its operations in India, they went ahead and adopted local schools in underprivileged areas, thereby getting an image beyond corporate setup.

Recommendation

As a recommendation to the MNCs approaching the emerging markets, the following plan covers most of the risk areas.

Swiftness—How fast the store should be launched, from teaser to all locations, full and functional. As these would be new brands, it should give enough time for consumers to understand the brand yet not so long as to have imitations also come up. What is the overall speed of bringing all its products and services and the offerings it commands. How fast can the brand enter the emerging market—Whether a big bang approach or an organic growth. With MNCs will have to face local substitutes in market and speed of entry and covering all distribution regions and channels is going to be important aspect.

Expenditure—How much money is a company willing to spend on its promotion and branding. Initial investment costs and the ROI expected. How much will the project's cost?—Is it to be funded from its regional profits or will the group holding support the growth and development to some extent.

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[1]Tarun Khanna http://doi.org/10.1016/S0014-2921(99)00059-8.

Flexibility—Flexibility in managing customers, credit line (very important in Indian context), suppliers, and also willingness to change to local demands. How difficult is it to start or quit business in these markets?—the entry and exit barriers need to be analyzed. Sometimes, exit barriers are ignored; however, where labor-intensive industries are considered, loss of income due to closure of factories is also to be considered, failing which legal actions may happen.

Risk—assessment of risk to brand, reputation, financial, etc. Is it safe to enter? What is the political condition there? Who are the competitors?

Profit expectations—What kind of ROI is expected in coming years.

Continuing objective—What and how are the primary objectives to enter into emerging markets considered and met.

Entry strategy—What all are the possible entry strategies: franchising, distribution, or joint venture.

Chapter 22
Multinational Company's Approach to Emerging Markets—Growth Market Unit of IBM

Vijayprakash Vasudevan

Abstract Rapid urbanization has impacted communities and environment equally. Global financial crisis has not only pushed the limits of economic policies of nations but also stressed the need for reviewing and retaining the competitive advantages of nations. The need for sustainable development has gained support both at national and international levels. Increase in economic activities and growth rate in emerging markets had shifted the focus of multinational companies towards emerging markets. This article will review the approach taken by IBM for its market expansion in emerging markets outlining how IBM balanced the competing demands of developed and developing countries by adopting strategic CSR initiatives. Theoretical foundations laid down by analytical and empirical research favor the use of strategic CSR as a competitive advantage which is also evident in its growing adoption by large corporations. Making use of CSR disclosures done by IBM, we draw inferences on how strategic CSR practiced in emerging markets is helping in addressing business needs of IBM as well as social needs of host countries.

Introduction

Strategic marketing as a discipline plays a vital role for multinational enterprises for long-term success in emerging markets. Enterprises which are industry leaders are facing the twin challenge of retaining their position in developed market and also seek out growth opportunities. They had to be both market driving and market-driven organization at the same time. Combining theory and practice, IBM positioned itself for a long-term growth in emerging markets through its strategic marketing techniques.

The views and opinions expressed in this article are those of the authors and do not necessarily reflect the official policy or position of Author's employer.

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A. Adhikari (ed.), *Strategic Marketing Issues in Emerging Markets*,
https://doi.org/10.1007/978-981-10-6505-7_22

Strategic Marketing Issue: CSR as Competitive Advantage

Doing well by doing good is the new mantra for expanding in emerging markets. The complexities of global economy can be handled by multinationals by being socially responsible. Problems in the domain of CSR require solution that should balance the shareholder expectations with the stakeholder needs. There are academic researches that support the arguments in favor of CSR as sustainable competitiveness. Smith et al. (2010) argued that "The financial crisis is in substantial part due to a failure of corporate responsibility and avoiding its recurrence requires more attention to corporate responsibility, not less." It is also found that taking sustainability as key driver for innovation will provide competitive advantage and it will stand in good stead because sustainability will always be an integral part of development. This identification of the need for sustainability in emerging market by an enterprise is in itself a first step toward adopting a market-driven strategy in emerging market.

The market entry strategies for a global leader in an industry cannot be same as emerging market natives or the one based on a business model which can be copied by competitors. In the context of emerging markets "Turnkey project provides an opportunity to enter a foreign market by adapting to the complexity of the environment or even by proactively modifying it" (Vassileva and Nikolo 2016). "Turnkey projects are a type of collaborative arrangement in which a firm handles all operations and details for the host country client, mainly by building complete, ready-to-operate facilities" (Vassileva and Nikolo 2016). "From a marketing perspective project 'is a complex transaction concerning a package of products, services and works, designed specially to realize in a certain period of time a specific asset for a client'" (Vassileva and Nikolo 2016; Cova and Holstius 1993).

With the above support borrowed from academic research, let us proceed to review how CSR when incorporated into holistic marketing strategies can provide competitive advantage for MNCs in emerging markets. The needs of the emerging markets are characterized by urbanization, infrastructure development, and industry transformation. This is distinct from the needs of the developed markets which are characterized by the need for innovation and efficiency. However, sustainable development remains a unifying theme in both the developed and emerging markets. Digitization enables socially responsible technology solutions to address the problems in public sector making CSR as a viable competitive advantage for MNCs. This interplay of technology and market needs provides opportunities for turnkey engagement suitable for MNCs in emerging markets.

IBM Growth Market Unit

In the midst of global financial crisis in 2007, IBM started a new division called Growth Market Unit (GMU) dedicated to pursue growth strategies in emerging markets. IBM's corporate strategy had been that of managing for long term, creating new markets and moving to the future. In the process, it divests commoditizing businesses, acquires new ones, and remixes them for higher value. As a part of its globalization strategy, IBM transformed itself into what it called as globally integrated enterprise. In the words of the then Chairman, Samuel J. Palmisano (2007 Annual Report), "In IBM we are building a highly adaptable business tightly integrated across both our operations and the global economy that can sense and respond quickly to changes anywhere, anytime… We had a chance to capture rapid growth of countries as they invested heavily in information technology to modernize their societies. And we could also tap into enormous populations of skills all over the world. We set out to seize both the opportunities."

GMU was set a target of achieving geographical revenue contribution of 30% from emerging markets by 2015 and outpacing major market growth by greater than eight points. The value creation sequence such as segmentation, targeting, and positioning happened in the form of selecting 20 countries in emerging market, targeting the specific set of industries in those countries and finally positioning as a leader in IT infrastructure development. It is in the choice of industries or target markets the role of CSR as competitive advantage is evident. Natural Resources, Public Sector, Energy & Utilities, Healthcare, Telecom, Transportation & Retail, and Banking are the industries focused on the emerging markets. The marketing variables such as Product, Price, Place, and Promotion are suitably controlled based on the needs of the target markets. The product choices were based on the corporate growth initiatives such as smarter planet, cloud computing, business analytics. The spirit of social responsibility was inherent in these offerings, and the same is communicated through various promotions. One example of such promotion is smarter cities challenge conducted across the globe. It will not be an exaggeration to say that IBM added philanthropy into its marketing mix for growth markets.

IBM has integrated corporate citizenship and social responsibility into every aspect of its business in providing technology solutions and technical services, thereby building its brand in new markets. Some of the CSR initiatives include but not limited to: Smarter Cities Challenge, Corporate Service Corps, Executive Service Corps.

CSR as Competitive Advantage in the Context of Developed Country

A broad definition of CSR was provided by Boulouta and Pitelis (2013) that "CSR is a complex and dynamic concept, continuously evolving, following and sometimes shaping changes in societal norms and societal expectation." "CSR also refers to business assuming and fulfilling responsibilities that extend beyond their profit making functions, with the aim to enhance some social objectives, such as sustainable economic development, quality of life, and/or increasing the national standards of living, amongst many others."

CSR as a viable firm-level strategy was dealt by Porter and Kramer in "Strategy and Society: The Link between Competitive Advantage and Corporate Social Responsibility." Porter and Kramer (2006) went on to bust the myth surrounding sustainability, its measurement at micro- and macro-levels by providing a strategic framework to map social opportunities with the firm's value chain, and also to "understand the social dimensions of the company's competitive context." Porter and Kramer (2006) boldly suggested that the first step toward CSR positioning is the identification of social needs and issues through stakeholder engagement applicable for the social context.

IBM as a leader in providing enterprise solutions is no stranger to co-creation models of business. It realized the need to extend this to social issues in order to expand its presence in emerging markets, thereby seeking to make the "globally integrated enterprise" as a sustainable brand. To study this transition to sustainable brand, we can base our analysis on its public disclosure of CSR initiatives and how those initiatives map to IBM's value creation. It must be kept in mind that the revenue target set for growth market is 30% of total geographical revenue and hence the remaining 70% still needs to come from developed countries or major markets. Integration of CSR with business cannot be done only for emerging markets in isolation by a multinational company for the simple reason that it will not be in alignment with its international business strategy. However, "social dimensions of competitive context" vary with host countries. This is where the stakeholder engagement in the form of smarter cities challenge serves the dual purpose of business and the society.

IBM claimed that smarter cities challenge is one of its largest philanthropic efforts that provides its expertise and technology to cities and counties facing urban challenges. This is a competitive grant amounting $500,000 which is equivalent to full-time commercial consulting services involving organizational resources and IBM experts. Starting in the year 2010 within a period of six years until 2015, it is said that 132 cities have been selected and awarded the grant. Recommendations were made to make progress on the social issues faced by the selected cities. This resulted in the multi-stakeholder engagement involving government officials, nonprofit groups, and small businesses. The list of countries whose cities are awarded this grant is given in the Exhibit 1 (Figs. 22.1 and 22.2).

Exhibit 1 List of countries awarded in smarter cities challenge (table prepared by author)

Developed countries	Developing countries (IBM top 20)	Developing countries (IBM non-top 20)
Belgium	Australia	Argentina
Canada	Brazil	Chile
Denmark	Chile	Colombia
Finland	China	Ghana
France	India	Kenya
Germany	Indonesia	Lithuania
Greece	South Korea	Morocco
Ireland	Malaysia	New Zealand
Italy	Mexico	Nigeria
Japan	Philippines	Peru

(continued)

(continued)

Developed countries	Developing countries (IBM top 20)	Developing countries (IBM non-top 20)
Netherlands	Poland	Romania
Northern Ireland	Singapore	
Norway	South Africa	

(continued)

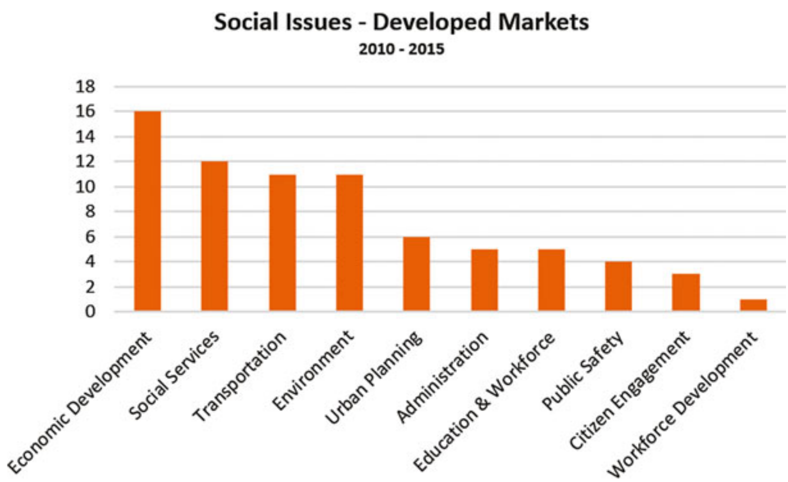

Fig. 22.1 Social issues addressed in developed markets (chart prepared by author) *Source* https://www.smartercitieschallenge.org/

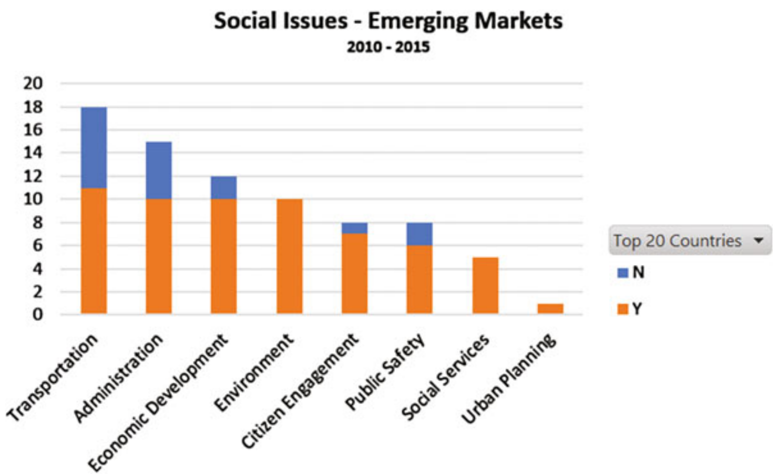

Fig. 22.2 Social issues addressed in emerging markets (chart prepared by author) *Source* https://www.smartercitieschallenge.org/

(continued)

Developed countries	Developing countries (IBM top 20)	Developing countries (IBM non-top 20)
Portugal	Taiwan	
Spain	Thailand	
United Kingdom	Vietnam	
United States		

Source https://www.smartercitieschallenge.org/

The social issues addressed in major markets reflect the priorities of developed countries due to the impact of global financial crisis. Data published regarding smarter cities challenge shows that economic development remained the topmost priority exceeding that of emerging markets, so is the importance of environmental issues. Due to recession, driving growth and economic vitality remained critical in developed markets hence workforce development, education and workforce are two other social issues featuring only in developed markets but not in emerging markets.

CSR as Competitive Advantage in the Context of Emerging Market

Continuing the above analysis of CSR initiatives arising from the smarter cities challenge to emerging markets, it is observed that the grants provided for cities in emerging market are greater than the grants provided for cities in developed market. Similar alignment with growth market unit strategy can also be found in the fact that grants provided are more for the top 20 countries of emerging markets identified for market expansion.

The priorities of social issues also differ from the major markets. Transportation, administration, and economic development remain top priorities. Citizen engagement and public safety needs are higher in emerging markets than in growth markets. Environment is given equal priority in both the markets; however, greater contribution to environmental issues in developed markets reflects the increase in awareness and regulatory policies.

Discussion

Corporate philanthropy when not integrated with business remains yet another residual claim on the profits. This ignores the social value creation necessary for long-term growth. Porter and Kramer (2006) explained that the shared value creation is possible through strategic CSR initiative which lies in the intersection of business and social value creation. Urban challenges are broad agendas of national importance, and providing innovative IT solution for these challenges was the key differentiator of IBM in emerging markets. Smarter cities challenge provided the sample data needed to analyze the integration of IBM's GMU business with its corporate citizenship and CSR. Corporate services corps is an initiative designed for growth markets. "IBM corporate services corps sends teams of some of IBM's most talented employees to provide pro bono consulting to countries in developing world that are grappling with issues that intersect business, technology, and society." A cross-sectional analysis of IBM's overall corporate strategy is not within the scope of this article nor even all kinds of CSR practiced by IBM. IBM's GMU and smarter cities challenge provide ample evidence of multidisciplinary approach involving marketing strategy, international business strategy, and strategic CSR toward new market development in emerging markets.

Marketing strategy is the common thread that runs through other disciplines. It is evident in the creation of an SBU in the form of Growth Market Unit and also in laying down a clear charter for it. Alignment with international business strategy appears in the choice of countries for expansion and in basing the future growth on the foundation of a globally integrated enterprise. These together with global economic conditions gave rise to the need for transforming into a responsible organization. As a consequence, a responsible marketing mix was available to go to both major and emerging markets.

Smarter cities are a systems approach to solving social issues. A city is conceptualized as a hierarchy of three categories of systems such as City Operating Systems, City Services System, and City Infrastructure Systems each comprising of sub-systems. These sub-systems have direct relation with the social issues faced by the communities. The intelligent management of these systems provides opportunities for the kind of turnkey projects suitable for expansion of MNCs in emerging markets.

Even though smarter cities solution offerings of IBM fall under the public sector offerings, this has led to the assessment of social needs in transportation, energy and utilities, natural resources, and even banking and financial services industries providing scope for cross-industries solutions. Information technology became a converging point and a common ground for societies, businesses, and governments. Thereby IBM created a value proposition for all the stakeholders. Through smarter cities challenge, IBM had proactively engaged the stakeholders of society for generating and assessing the demands and further providing a road map for creating future value. "Pro bono business and community service build foundational relationships at city levels." The experience gained in such stakeholder engagement is put to good use in marketing campaign and promotional events. Smart cities and smarter planet became a buzz word around the globe. Thus, IBM created the outside-in and inside-out linkages needed for strategic CSR envisaged by Porter and Krammer (2006).

Strategic imperatives of IBM are a constantly evolving one. GMU started in 2007 and remained a strategic imperative till 2012 during which time it reached more than 20% in geographical revenue contribution. Growth of emerging market economies had hit a plateau which has impacted the growth of GMU. Smarter planet solutions also shared the similar focus until 2012. A reasonable measure of business performance vis-à-vis CSR initiatives need to consider the economic conditions and growth of host countries. By that measure, IBM achieved sustainable growth through strategic philanthropy in the form of smarter cities challenge. This initiative continued as a competitive advantage for testing the effectiveness of future IT solutions in addressing the new and additional social issues.

Recommendation

Recent increase in protectionist policies will compel MNCs to substantiate their license to operate in host countries. CSR then becomes a strategic imperative not only for business growth but also for the survival. MNCs aspiring to be global leaders need to transform themselves into responsible organizations adopting strategic CSR initiatives. This will put them in the forefront of world-changing opportunities. It is but no ordinary coincidence that a developing country like India started its own mission of urban development called smart cities. Increasing the scope of the problem domain that the organization can solve through its core competencies, targeting high-value business opportunities involving the society, engaging a diverse group of stakeholders, and finally driving innovation by communicating the value of sustainable development should be the approach of MNCs towards emerging markets. Towards adopting such an approach, MNCs should shun short-term business gains and lay emphasis on future value.

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Part V
Business to Business Marketing

Chapter 23
Globalization of Indian B2B Firms: Past Performance and Future Challenges

Sharad Sarin

Abstract This paper traces the historical evolution of globalization attempts of B2B firms from India. Post-1991, India's global presence has changed at a very fast pace. The exports have increased from US$ 18 billion (1990) to US$ 267 billion (2015). The share of India in global trade which was 0.54% (1990) has increased to 1.66% (2015). Article shares that nearly 0.3 million large and big organizations from India have contributed to this spectacular performance. The article has shared the challenges of creating global brands from India. It has shared the globalization of three well-known organizations: House of Tata, Larsen & Toubro and Infosys. It has also shared the data on South Korea and China.

India 1991: The Great Awakening

July 24, 1991, could be considered as the second independence of India. On this day, the Prime Minister Manmohan Singh, who was then the Finance Minister of Government of India, made his budget speech in the Indian Parliament. This speech marked the beginning of the economic reforms and liberalizing the Indian economy. Manmohan Singh, a humanist and a Nehruvian socialist, was bold enough to admit that India and its economics have failed to deliver what the Father of the Nation—Mahatma Gandhi—had said to wipe out the tears from the eyes of every Indian. To Gandhi, political freedom had no meaning till the last tear was wiped off from the eyes of every Indian. To him, there could not be a political freedom without economic freedom. In his budget speech, Manmohan Singh (1991)[1] shared that the new government, which assumed office barely a month ago, inherited an economy in deep crisis. The balance of payments situation is precarious, and the foreign exchange reserves are in the range of Rs. 2500 cr just sufficient enough to finance imports for a mere fortnight. This grim situation forced the government to liberalize and globalize the Indian economy at an accelerated pace.

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A. Adhikari (ed.), *Strategic Marketing Issues in Emerging Markets*,
https://doi.org/10.1007/978-981-10-6505-7_23

Rapid Economic Development: Exports Hold the Key—The Bitter Truth Ignored for Long by India

No nation has become an economic superpower without strong exports. However, it is important to remember that exports to the most demanding markets are the key to the success and not the way Indian companies exported in the past. To succeed in the most demanding markets, one must be globally competitive and not domestically competitive. The global competitiveness means better products and services at lower prices.[2] (Sheth)

There is a lot of wisdom and truth in the words of Sheth, a well-known USA-based marketing professor of Indian origin. In 2004, he was echoing what Paul Krugman, a Nobel Laureate Economist from the USA, suggested to the Indian companies in 1996. Krugman[3] was addressing the conference of All India Management Association (AIMA) in Kolkata. Travelling for more than 17 hours, he carried only two slides. The heading for the first slide was 'India: Reforming but still Lagging'. Table 23.1 was his first slide:

With 4.9%, India was lowest, Indonesia with 25.8%, China with 18% and the USA with 11.4% were much higher than India. To Krugman, the poor economic performance of India was primarily due to poor export performance as expressed in terms of per cent to GDP.

The second slide with the title was: 'Beyond Liberalization: What Else?' Even for this, Krugman had only two suggestions. These were:

1. Education and
2. Infrastructure

One does not need a noble laureate to state the obvious. But what Krugman suggested in 1996 seems to be valid even by 2016. India has to improve a lot in both. It has the highest number of illiterates. Its infrastructure, in terms of roads, ports, electricity, is still rated the lowest in the world.

Table 23.1 India: reforming but still lagging (1996)

A key indicator: exports/GDP [1996]		
Country	Population in million	Exports/GDP in %
Indonesia	197	25.8
USA	265	11.4
India	945	4.9
China	1215	18

Rapid Economic Development: An Example of South Korea

Prior to comparing China with India, several experts used to compare South Korea's economic growth with India. One reason was that both India and South Korea had almost similar per capita income in 1960. But within a few years, South Korea left India far behind. Tracing the superlative performance of South Korea, Nak Song[4] in his book 'The Rise of Korean Economy' identified export-led growth as the key reason for this exemplary performance. The performance of South Korea over the years was[5]:

Year	Exports (%) of GDP
1953	2.5
1961	3
1965	5
1970	10
1980	35
1985	45

As would be seen, contribution of exports increased from less than 2.5% in 1953 to 45% by 1985.

At the time of writing his book, i.e. late 1980s, Nak classified the economies of the globe into four types. These were:

a. Inward-Oriented Economies: Prior to 1991, India would have been an example.
b. Outward Primary-Oriented: Oil exporting countries like Saudi Arabia and UAE are the examples even by 2016.
c. Outward Industry-Oriented: Japan, South Korea, Singapore would be some examples in this category.
d. Neutral Economies: The developed countries like USA, UK and Germany would be some examples.

According to Nak, since 1963, South Korea has followed 'Outward Industry and Growth-Oriented Strategy' to manage its economy. From 1962 to 1988, i.e. within 16 years, the exports of South Korea grew by 1000 times. An incredible performance!! Table 23.2 compares the performance between India and South Korea.

Table 23.2 brings out that in 1962 the exports from India were 40 times more. But by 1988, South Korea's exports were nearly 3.5 more than India. A simple explanation of this vast difference is, India for first 30 years, post-independence,

Table 23.2 A comparison of India and South Korea (in US $mn)

Year	India	South Korea
1962	2,200 million	55 million
1988	16,500 million	55,000 million

Source Business Marketing: Concepts and Cases' by Sarin

Table 23.3 India and China's GDP and exports (in US$ bn)

Year	India			China		
	GDP	Exports	Exports as % to GDP	GDP	Exports	Exports as % to GDP
2000	476	37.9	8	1,198	232	19
2005	808	89.8	11	2,256	583	26
2010	1,597	246	15	5,931	1,506	25
[a]2015	2250	273	12	11390	2140	19

Sources Business Marketing: Concepts and Cases by Sharad Sarin
[a]CIA Fact Book 2015

remained a closed economy whereas South Korea followed a very focused and outward-oriented export strategy.

In 2015, per capita GDP of South Korea was around $25,000 per person. India's per person GDP in 2015 was around US$1630 only. So within six decades, South Korea's GDP in terms of per capita was 15 times more than India. Post-1978, i.e. when China started opening its economy within two decades it started showing (see Table 23.3) remarkable growth in its exports. This has helped China to eradicate poverty at a much higher rate than India. The GDP of China was five times more (2015). The exports were nearly eight times more. In 2000, China's GDP was 2.51 times more than India and its exports 6.1 times more than India. This remarkable export-led growth has earned China the honour of growth driver of the global economy.

Gearing up for Globalization of Indian Firms

Table 23.4 shows India's performance from 1948 onwards. It indicates that the share of India in the global trade came down from 2.3% (1948) to as low as 0.5% (1990). Experts attribute this drastic decline to India's policy of closed economy and drive to achieve self-sufficiency through conservation of foreign exchange. So, when even countries like South Korea, China and the famous four tigers from Asia were opening their economies, India was busy disengaging from the globe. The superlative performance of four tigers prompted S. Aiyar, a famous business columnist from India, to observe.

The four tigers of East Asia–Singapore, Hong Kong, Taiwan, South Korea—have broken all records in economic growth in the last three decades….India is a tiger too, but one trapped in a cage of its own making.—S. Aiyar.[6]

Post-1991, i.e. the year of opening up of the Indian economy, several Indian companies started gaining global competitiveness. They were fast to get certifications like ISO 9000, 9001.[7] The other was to implement practices like TPM, TQM, Six Sigma, Quality Circles, Value Engineering and lean management of Toyota Motors. They were busy toning up their processes by following models similar to

Table 23.4 India's export performance over the years

	World export ($ billion)	Indian's export ($ billion)	India's share of the world export
1948	57.3	1.3	2.3
1960	129	2.2	1.7
19990	3.334	18	0.54
2000	5744	37.9	0.7
2005	9977.7	89.8	0.9
2008	15,931.90	194.8	1.2
2009	12,368.60	157.2	1.3
2010	15,200	246	1.6
2015	16000	267	1.66

Source Strategic Brand Management for B2B Markets by Sharad Sarin and CIA Database

the Malcolm Baldrige Quality Awards of the USA. For efficient management of information, they supplemented their efforts to strengthen the processes through IT initiatives like ERP and CRM. Simultaneously, they started increasing their engagements with the global markets. Newspapers and business journals remained full of news like Tata Steel becoming the lowest cost producer of steel in the globe[8] and L&T bagging very large orders from Gulf countries.[9] Following the footprints of the Indian giants were thousands and thousands of small and medium enterprises. This was getting reflected in improved performance of the exports from India.

These increasing exports prompted Arun Shourie, a seasoned journalist and Ex Cabinet Minister of Government of India, to publish a series of three articles[10] in August 2003. Praising the performance, Shourie was keen to claim that India has arrived. Some examples of this optimism were:

- Twenty to twenty-five years ago, or even 10 years ago, few Indians had heard of information technology. Today, exports from this industry are worth $10 billion. This is 20% of our total exports. Infosys was not even been born 25 years ago. Wipro was a company selling vegetable oil. Indeed, other than the Tata Consultancy Services, there was scarcely a name in the IT industry that was known then.
- Fifteen of the world's major automobile manufacturers are now obtaining components from Indian firms. In 2002, exports of auto-components were $375 million. This year they are close to $1.5 billion. Estimates indicate they will reach $15 billion within to 7 years.
- Bharat Forge has the world's largest single-location forging facility of 1.2 lakh tons per annum. Its client list includes Toyota, Honda, Volvo, Cummins, Daimler Chrysler.
- Essel Propack is the world's largest laminated tube manufacturer. It has a manufacturing presence in 11 countries including China. It has global manufacturing share of 25% and caters to all of P&G's laminated tube requirements in the USA, and 40% of Unilever's.

As of 2016, India would have around 0.3 million firms exporting goods and services.[11] These would belong to several industries like gems and jewellery, readymade garments, leather and leather goods, Engineering products, auto-components and many more. Over the years, the global performance of the Indian companies is shown in Table 23.4.

Tracing the global orientation of firms, Ohmae,[12] a well-known global consultant from Japan, shared the five stages as:

Stage 1 Arm's length export activity of essentially domestic companies which move into new markets overseas by linking up with local dealers and distributors.
Stage 2 The companies take over the above activities.
Stage 3 Domestic-based company begins to carry out its own manufacturing and sales in key foreign markets.
Stage 4 Company moves to a full insider position in these markets, supported by a complete business system including R&D and engineering.
Stage 5 Venturing into new grounds. To make this, companies must denationalize their operations and create a system of values shared by company managers around the globe.

Out of the 0.3 million exporters from India, it is estimated that 90% plus would be, even by 2016, in the stage 1, i.e. exporting through agents, dealers and distributors based in the overseas markets. Nearly 5–7% would have opened offices overseas. They must be distributing it directly to the B2B customers. The balance 1–3%, i.e. 3000–5,000 Indian companies, may have reached stages 3 and 4. Some well-known names in stages 3 and 4 from India would be like Tata Steel, Tata Motors, Tata Consultancy Services, Tata Chemicals, Larsen & Toubro, Mahindra & Mahindra, Bharat Forge, Infosys, HCL, WIPRO, Reliance Industries and have become very active players in the global arena. The global performance and presence of some well-known Indian companies, as compared to the global giants, are shown in Tables 23.5 and 23.6.

Table 23.5 Export performance: some select companies (US$ billion)

Company name	2012			2015		
	Sales	Export	Export/ sales as %	Sales	Export	Export/ sales as %
Reliance Industries Ltd.	37	22	59	36	20	55
Larsen & Toubro Ltd.	6.1	1.3	21	8.5	1.6	18
Tata Consultancy Services Ltd.	4.8	4.4	92	12	11.4	95
Tata Steel Ltd.	4.1	0.23	6	6	0.12	2.5
Infosys Ltd.	3.6	3.6	100	7.8	7.2	98
Wipro Ltd.	3.3	2.8	85	6.3	0.56	91
Bharat Forge Ltd.	0.33	0.15	45	0.65	0.3	54

Source CMIE Prowess Database

Table 23.6 Comparison: Indian vs. global giants. 2013, 2015

	Year of inception	Sales (US$ billion)		No. of employees (in lacs)		Global presence (No. of countries)	
		2013	2015	2013	2015	2013	2015
IT/Computer services							
Indian giants							
TCS	1968	13.4	12	3.0	3.6	44	46
Infosys	1981	8.4	7.8	1.60	2.0	32	50
Global giants							
IBM	1911	99.7	82.5	4.3	4.2	170+	170
Accenture	1999	28.6	32.9	2,80,000	3.6	54	World wide
Engineering/diversified							
Indian giants							
L&T	1946	13.6	8.5	0.43	0.84	9	30
RIL	1966	73.1	36	0.24	0.24	16	World wide
Global giants							
GE	1892	146	140.5	3.0	3.3	100+	World wide
Bechtel	1898	38	33	0.5	0.53	50	World wide
Steel							
Indian giants							
Tata Steel	1907	4.1	6.7	0.8	0.8	26	26
Global giants							
ArcelorMittal	2006	79.5	64	2.4	2.1	60	World wide
ThyssenKrupp	1997	52	53	1.6	1.6	80	World wide

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(a) IT/Computer Services. Source for Indian companies: CMIE Prowess; www.tcs.com; www.infosys.com; Source for global companies: Fortune 500 listings available online at http://money.cnn.com/magazines/fortune/global500/2009/2015; www.ibm.com; www.accenture.com

(b) Engineering/Diversified. Source for Indian companies: CMIE Prowess; http://www.lntecc.com; www.ril.com; Source for global companies: Fortune 500 listings available online at http://money.cnn.com/magazines/fortune/global500/2009/2015

(c) Steel. Source for Indian companies: CMIE Prowess; www.tatasteel.co.in/; Source for global companies: Fortune 500 listings available online at http://money.cnn.com/magazines/fortune/global500/2009/2015; www.arcelormittal.com/; www.thyssenprupp.com; www.nsc.co.jp/en/index.html

Globalization Attempts of Some Well-Known B2B Firms

Besides increasing exports, Indian companies started becoming multinational. Three cases of House of Tata, Larsen & Toubro and Infosys are indicative of their attempts.

(a) Brand Tata Going Global; Actions and Challenges

> We have two guiding arrows. One points overseas, where we want to expand markets for our existing products. The other points right here, to India, where we want to explore the large mass market that is emerging—not by following but by breaking new ground in product development and seeing how we can do something that hasn't been done before.[13]
>
> —Ratan Tata
>
> Group Chairman

Tata Exports, which was set up in 1962 and later on became Tata International, was group's first attempt to unify the exports from group companies. Its export sales in 2007 were around $850 million. In spite of the desire to unify, several large groups of companies continued to maintain their independent exports [Ref. Table in Appendix]. Even by 2009, most of the companies were still exporting independently. The key difference, 1999 onwards, has been the adoption of the common 'T' logo of the House of Tata.

As claimed by Tata Sons websites, its major companies are now beginning to be counted globally. Tata Steel became the sixth largest steel maker in the world after the acquisition of Corus. Tata Motors is amongst the top five commercial vehicle manufacturers in the world. In early 2008, it acquired two famous brands, Jaguar and Land Rover. Tata Tea is the second largest branded tea company in the world along with its UK-based subsidiary Tetley. Tata Chemicals is the world's second largest manufacturer of soda ash. TCS is one of the leading global software businesses with delivery centres in the US, UK, Hungary, Brazil, Uruguay and China other than India.

An example illustrative of Tata way of creating global brand is South Africa. It is a country where many Tata companies have already set up businesses and others are looking at entering. The essence of the South Africa strategy is the three-circle approach: addressing leaders, influencers and journalists in three target groups—businesses, industries and the public. The communication is: Tata is a local company owned by an Indian group—a good corporate citizen. The South Africa Marketing Council has also jointly developed, along with the Tata Group, a television commercial welcoming the Tatas to the country and promoting Tatas as a South African brand. Gopalkrishnan shared that similar approach could be followed in the US, China and other countries where Tatas have substantial business activities. The branding strategies would however be adapted to suiting specific countries.

(b) Globalization: The L&T Way

L&T, the engineering giant from India, began its attempts to globalize by setting up exports department around early 1970s. The destinations were nearby Gulf countries. In 1976, ECC—its construction division—won a contract to build the Abu Dhabi International Airport. Over the years, ECC has built hotels and housing complexes in Russia. It has built two world-class hotels in Uzbekistan. But in spite of this performance, ECC did not have any permanent set up anywhere outside India. It never thought of becoming a global contracting firm. ECC's first joint venture firm: L&T Oman was created in 1993, i.e. nearly after 20 years of its export operations. But now it is accelerating the pace of globalization. Currently, ECC has around 700 staff posted in GCC countries. ECC has now created L&T Saudi Arabia. The main concentration will now be in the Middle East with bases in Abu Dhabi and Dubai. Besides these, it is also strengthening operations in Tanzania, Kenya, Sudan and Malaysia and Mauritius. Pushing globalization is the ambitious target to achieve 30% of total revenue from global operations. ECC's target for Middle East has been raised from Rs. one billion sales to Rs. two billion sales in next 5 years.

In spite of such substantial presence, the Director—in charge of ECC shared—'Till 2015, in spite of being very big in India, ECC was not a strong brand outside India'.

Another division L&T: Switchgear with 50% plus market shares in India still offers deep discount to get business from the foreign customers in India and abroad. Though over the years, the discount is coming down indicating an improvement in L&T's image amongst its foreign customers, but the Director in charge felt that it would not be easy to dethrone the likes of Siemen's and Alstom outside India. As part of globalization, L&T's switchgear has factories in China and in Saudi Arabia. All put together, L&T's global presence is on the increase. Hopefully, one day its dream of becoming a 'Bechtel' or 'Flour Daniel', the global construction giants, would materialize. But it is still a long way [Ref. Table 23.6].

(c) Infosys: Creating A Global Brand

Infosys, a well-known computer services provider, was founded in 1981. In early 1998, Mr. Narayana Murthy had expressed a goal which was that 'three to five years from now, when there is a $25 mn project, if the CIO were to ask he or her next in command whether the company had received the Infosys proposal, then I would feel we have arrived'.[14]

Listing in NASDAQ, development of global delivery model, opening up of offices in 46 countries and with nearly 20% of its human resources from places beyond India representing 70 nationalities, has made Infosys as truly global organization by 2008. But the masterstroke of Infosys to become a globally known organization was its association with Thomas L Friedman. As Infosys shared that it was in Infosys premise in Bangalore that Thomas L Friedman conceptualized the idea of famous book 'The World is Flat'. It has made Infosys a widely known global company. Today 'Win in the flat world' has become the prominent tagline of all the presentation and publications of Infosys. Infosys instead of spending millions on global mass media has been able to get substantial publicity without spending any money in mass media.

Around 1998 or so, Management Guru, late Sumantro Ghoshal and others wrote a case: 'Infosys Technologies Going Global'. Somewhere between the case, they wrote[15]

> For an outsider, walking into Infosys is an unsettling, experience. Unsettling because Infosys was a combination of many elements which normally could not be combined. One could not but notice that there was something strangely different in the fabric of the company. Something very humane. The reception area led to a bridge over a little stream, running through a landscaped garden. The bridge led to canteen, a little kiosk which sold cool drinks, and snacks, and the basketball court…..

Like House of Tata, L&T and Infosys, several Indian companies are attempting to become MNCs of Indian origin. Many are transforming well. But could they become global giants in near future appears to be tall order. Table 23.6 shares the gap between Indian and global giants.

The Indian Giants but Global Pygmies

Gupta, Govindrajan and Wang in their book: 'The Quest For Global Dominance' have shared the Financial Times list of 2007, top 500 global giants in terms of Market Cap.[16] This had eight firms from China and India each. Recognizing the emergence of China and India as two most important markets of global economy, the authors have speculated that by 2025 the list may contain more than 100 firms—in the top 500 list—with headquarters located either in India or China. This is a speculation for future. But what matters is the situation now? The gap is very substantial. The global giants make the Indian giants as pygmies. Table 23.6 shares the comparison on some select companies.

Creating Global Brands—It Would Be a Long Journey

Besides becoming bigger multinationals, creating global brands from India will be a very tough challenge. Two dominant reasons would be: the global perception of Brand India and the limited resources; technological, financial and human resources.

Image of Brand India: The Global Perception

Historically, the ‘Made in India’ brand has been associated with poor quality and inefficiency. This was true 65 years back and is true even in 2014. Despite the attempts of several Indian companies like Infosys, TCS, Tata Steel, L&T, Bharat Forge, the ‘Brand India’ has a very poor image amongst the global customers, especially from the USA, Europe, Japan and other developed countries. Perceptions are sticky.

These were the experiences of 1990s. As late as 2015, a Director of L&T shared that it took substantial efforts on his part to convince a buyer from New Zealand that L&T is different from India. After finishing his week’s visit to India, the customer wrote and acknowledged that L&T is definitely not like the other companies of India. He seemingly had a very poor view and experience of dealing with other companies. This poor image of India has adversely affected the image and efforts of even well-known Indian companies. Around 2014, Sintex’s (leaders in water tanks from India) MD shared that in spite of owning the manufacturing firms in Europe and USA, the foreign auto-component manufacturers are still reluctant to give orders to Sintex. He felt that the major barrier is the image of India. Adding fuel to the fire are the reports declaring India as 86th out of 134 countries in the list of most corrupt countries.[17]

The cumulative impact of poor and unreliable image of brand India is the negative rub off on all the Indian firms. Thus even by 2015, in order to practice ‘just in time’, the auto giants of USA and Europe insist on the Indian component suppliers to maintain warehouses in their countries. This implies twice the level of inventories. Reason is the shipping and shipments from India are unreliable. So even when Indian companies have matched the quality gaps, socio-economic infrastructure is still a major weakness. Looking at the Indian ground reality Ramachandran Guha, a famous historian from India, shared that infrastructural deficiencies and social ethos would not help India become a superpower even by next 50 years.[18]

The gap between global leaders and Indian players is very wide and resources very limited. Acquisition and resource leveraging can help in a very limited way. ‘Brand building is not a magic. It takes decades to become well known global brands. In spite of all their efforts, Japanese and Koreans could only build limited number of brands like Honda, Toyota, Samsung, Hyundai, Sony, Panasonic, L.G. Hyundai’.[19] [Ref. Appendix 1]. Based on these examples, many may feel that Indian firms still have a long way to go. But in spite of this, some feel that the basic building blocks are in place to create global brands from India. These are liberalized policies of the new government under the Prime Minister Modi, due to which Indian companies are increasing their global presence through more and more share in sales from global operations. The other development is the articulation of aspirations like TCS to become tenth IT service provider by 2010 or Mahindra’s desire to become the largest tractor brand of the world. Through these examples, experts feel that Indian companies can also build strong brands. But achieving global awareness and recognition is still a very long journey.

Concluding Remarks

Two quotes help us putting things in proper perspective.

- A flat world is a world that allows globalization to flourish.
  —Narayana Murthy (Ex CEO and Founding Member of Infosys)
- Globalization has changed us into a company that searches the world, not just to sell or to source, but to find intellectual capital – the world's best talents and greatest ideas.
  —Jack Welch

Globalization of business is here to stay. The trends of trade and technology are not likely to be reversed. To many experts, globalization process has become irrevocable and these developments are likely to change the face of the globe much faster than what has happened in last 20 years. Experts feel that the economic map of the world will change more radically in the next 20 years than in the last 20 years. The list of 'Fortune 500 will have more number of firms from nations like China, India, Brazil and Russia. This would mean decline of firms from US, UK and Germany. Further, the ongoing technology revolution will make real-time coordination of globally dispersed operations routine, simple and very efficient. For many global organizations, this will be a new management model to manage their value chain. For global leaders, to manage multiculture, multilocations workforce would be a prerequisite for sustenance.

Jack Welch, a widely quoted ex CEO of General Electric (1981–2001), had summed up the development well. 'Globalization must be taken for granted. There will be only one standard for corporate success: international and market share. The winning corporation will win by finding markets all over the world.'[20] So big or small, all companies in order to survive and prepare must think of globalization of their business.

There is a sea change in the globalization attempts of Indian companies between 1991 and 2016. This chapter deals essentially with the companies operating in B2B markets, both at home and globe. But besides these, there are several companies like Hero Motor Corp., Mahindra and Mahindra who are operating in several countries. Thus, Mahindra[21] is the largest manufacturer of tractors in the world and are present in more than 40 countries. Similarly, Hero Motor Cycles[22] by producing 7.6 million vehicles in a year is the largest manufacturer of motorcycles in the world and are present in more than 35 countries (2016). By 2020, Hero wants to be in 50 countries.

Beginning in 1983, by 2017, Sun Pharma[23] has become the fourth largest pharma company in the globe for specialty generic pharma. It was present in more than 100 countries by 2016. Its revenue break up of US$ 4.6 billion was 48% from USA, 26% from India and 13% from rest of the world. Suzlon,[24] the fifth largest company in wind power energy, was supplying to more than 30 countries. Its turnover by 2014 was US$ 3 bn. It has eight manufacturing units located all over the globe. Suzlon began its operation in India in 1995.

An article by Sarin[25] on globalization attempt of Indian firms had envisaged that beyond 2000, multinationals of Indian origin with global presence in major markets and home in several countries. It had also predicted emergence of Indian brands in major world markets. But they have yet to become a global brand like IBM, INTEL Accenture, GE, Siemens, ABB, Apple.

The four imperatives articulate in 1994 for the Indian companies were:

1. Articulation of the Strategic Intent.
2. Make Globalization a National Imperative for every Indian Firm.
3. Global Network and Access to the World Markets.
4. Internal Infrastructure Strengthening.

All three, which were within the scope of firms, have happened. But the fourth point: internal infrastructure strengthening is still a pain for India and Indian firms. An enabling environment with world-class infrastructure can transform the entire India and to make it a superpower way ahead of 2050. Maybe the implementation of 'one tax system' would accelerate the transformation.

So, all put together, the Indian tiger which was caged till 1991, finally got uncaged. 'India is a tiger caged': the metaphor of a hard-hitting article in 'The Economist' 1991'.[26] Seemingly, the 'Indian elephant' of Jim Rohwer (Asia Rising)[27] is now moving at tiger's speed. It is a very positive achievement for a nation which was declared as world's biggest underachiever by 'The Economist'.[28]

End Notes

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Appendix 1

Number of companies having world's top 100 hundred brands

Country	No. of companies	
	2013	2015
USA	55	51
Germany	9	12
France	7	8
Japan	7	6
Switzerland	2	2
Italy	3	2
Netherlands	3	3
UK	4	4
Canada	1	0
Sweden	2	2
South Korea	3	3
Spain	2	2
Finland	1	0
Mexico	1	1
China	0	3

Source Interbrand.com

Chapter 24
Empowering Agribusiness with Digital Innovation for Emerging Market

Palani Sakthi Srinivasan

Abstract This article discusses the adoption process of B2B market in agriculture business. The current challenges in today's agriculture business provide a holistic view on better implementation of B2B market opportunities using e-commerce platform. Electronic commerce has the potential of improving the efficiency and productivity of any economy. Currently, there are still a limited number of studies on e-commerce adoption by developing countries. This article is meant to identify factors that could influence proper implementation and adoption of e-commerce in developing countries focusing towards B2B market. Factors affecting the adoption of e-commerce and the condition of emerging market in relation to e-commerce adoption were also discussed.

Introduction

The power of Internet increased the connectivity, efficiency and productivity across various industries. The developed countries have taken this technology advantage much early and benefited a lot. Internet usage empowered the connectivity of end-to-end supply chain and provided remote monitoring and controlling and excellent customer experience in e-commerce business. The cost of Internet, faster data transaction and people trust factors in buying online shopping were the success factor of e-commerce penetration in developed countries. However, the case in developing countries is quite different. Past few years, countries like India are showing interest in mobile Internet especially in social media, online shopping, etc. The key barrier in e-commerce platform in agriculture sector is slow penetration of Internet in rural India particularly in the farming community due to high Internet cost, poor infrastructure and high implementation cost and lack of awareness of Internet usage.

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A. Adhikari (ed.), *Strategic Marketing Issues in Emerging Markets*,
https://doi.org/10.1007/978-981-10-6505-7_24

Government and other institution initiatives (Digital India) encouraged small player in market to support and launch start-ups to tap the potential market opportunities. The concept of open innovation can create novel products, services and business models which can be a paradigm shift in farming industries. To realize the end-to-end benefits in agriculture business requires a new approach of integration compete supply chain and clear understanding of future customer requirement and emerging technologies.

The objective of this article is first it provides an overview of potential B2B market opportunities in agribusiness in developed and developing countries (Kaplan et al. 2000). Later, it details the barriers and various challenges in implementing e-commerce platform in developing countries and finally proposes a business model for future agribusiness shifting with Bi-Modal agriculture.

Strategic Marketing Issue

International Trade—Restrictive Policies

Developing countries are facing unfair trade competition, victims of subsidy policies and dominated by developed countries. More than 70% of all export subsidies in agriculture is controlled by developed countries, and this makes extremely difficult for developing countries to compete in the export market. However, World Trade Organization (WTO) controlled the situation and structured the proper governance system, regulated tariff, export regulation and reduction in agricultural subsidies system to address the problem faced by developing countries.

Infrastructure Gaps in Emerging Market

Agriculture business using e-commerce platform can transform into digital age business model compared to the traditional way of doing business. The way supplier interacts with customer, logistics and communication channel, distributions will be more digital via mobile networks, Internet and social media, network devices and sensors and satellite communication systems. However, the supported infrastructure, hardware system compatibility and data connectivity are the major barriers in developing countries.

A study on the network coverage as per TRAI shows low percentage of coverage, more drop call and network utilization in India (emerging countries). Tamil Nadu, an agriculture state in India, was taken for study for this case. The increase in the mobile Internet rural users is rapidly growing in state, but the necessary cellular infrastructure in state is still very low. This is one of the key drawbacks in expanding the e-commerce opportunities in agribusiness, especially in B2B market.

Need Centralized Interface

Farming community in developing countries continues to follow traditional farming practices due to lack of access to centralized knowledge base repository system. Most of the farming best practices were not stored or shared across farming community to increase the productivity. Farmers in small region do not use technology and fail to connect with agro-input companies (**agriculture product suppliers**) for buying quality fertilizer, seeds and pesticides which can yield better results. In fact, this is one of the major challenges for agro-input companies to reach small community farmers segment. These companies struggle to predict market demand and sales due to lack of market information and miss the opportunities for making profit.

Weak Smart Farming Technique Adaptation

Unpredictable weather, weak infrastructure, volatile prices and little support are universal challenges facing smallholder farmers. Despite all these challenges, millions of farmers, traders, service providers and other micro-entrepreneurs still manage to deliver fresh food to urban consumers daily, export produce to distant markets, and stay in business. This reveals gaps in the current value chain in framing industries and its dependent business sectors. Smallholder farmers do operate in isolation today and struggle from the point of production, processing, marketing of a particular product, from inception to the finished product. A greater opportunity of leveraging technological advancement with the right strategic vision can be used to eliminate the non-value added practices in Agriculture industry (farming-production-marketing-buyer). The lack of awareness, infrastructure and economy situation is the current challenge in developing countries to leverage technology advancement in agriculture industry.

The detailed market opportunities of smart farming in emerging and developed countries are discussed in later stage in this article.

Need Data-Based Operational Decisions in Agriculture Industry

Availability of markets and market information data gives farmers the potential to bargain, seize market opportunities through the adjustment of production plans and better allocation of production factors, and lack of information on right time to make choices about marketing to improve their income. Not many predictive quantitative models are available in agribusiness to predict the right market demand and assist farming community to make profit.

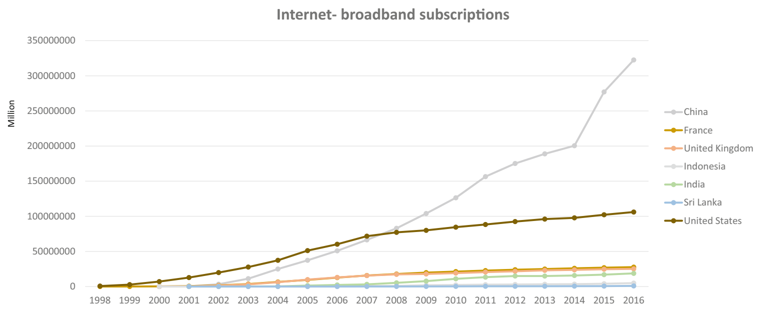

Fig. 24.1 Growth of Internet-broadband subscriptions in Developed vs Developing countries, Prepared by Author

Opportunities for data science and machine learning technique can be used in the field to predict crop pricing, weather forecast and investment decision. Crop failure scenario, soil nature for best case farming, crop growth rate, Internet of Things (IOT)-based smart irrigation and many more can be achieved.

Modernizing Agriculture Using Digital Innovation

The adoption of e-commerce in agriculture is increasing in the recent years, and penetration is faster in developed countries than developing countries. Also, the food habits of the consumers are changing and the demand of agricultural commodities is on a rise. The emerging challenges and opportunities call out for a paradigm shift in the innovation-driven field of agriculture. The subsistence agriculture in the state is shifting to a high-value commercial enterprise.

The cultivation of high-value crops is gaining importance due to the better returns, lower risk and tolerance of these crops for part-time farming. The penetration of mobile technologies has evidently proven more productivity in agribusiness. The usage of mobile Internet is seen quite high and matured in developed countries.

At the same time, report from ICT shows[1] the mobile cellular and Internet (broadband) users in developing (emerging) countries are rapidly growing when compared to developed countries (Fig. 24.1).

[1]ICT report, *Growth of Mobile & Fixed broadband in Developed & Developing countries.*

Precision Farming Technology—A Comparative Study on Developed and Emerging Countries

Precision farming technology, also called precision agriculture or satellite farming, is defined as an information technology-based farm management concept that involves the observation, measurement and response to intra-field variability in crops, with the aim of optimal production, sustainability and protection of land resources.

Use of precision faming is not only expected to help increase crop yields, but also aids in the monitoring of crop health, which in turn helps in improving soil property, soil fertility, moisture, etc. The proven advantage of precision farming is driving agricultural companies and large farm owners to adopt precision farming technologies and solutions.

Market Adaptation Rate Developed Versus Emerging Countries

See Table 24.1.

Developed Countries: Farming Technology

The farming technique is more scientific and technology-supported system available in developed countries. In USA, even small farmers are empowered and have better access to market information, sponsorship from leading companies to promote technological innovation, availability of Internet of Things-based system such as solar powered water pumps, smart harvesting techniques and market information. GPS-based automatic vehicles are used in agricultural land for seed planting, water spraying and even LED light-based planting. Thanks to advantage technology, knowledge of farming practices can be socialized across region using Internet and mobile phones.

Due to widespread modernization in developed countries in the agriculture sector, farming communities have started employing connected technology, big data and by enabling self learning models in various domains of cultivation like tillage, sowing, irrigation, transplanting, plant protection and threshing.[2]

[2]Rolf A.E. Mueller, *E-Commerce and Entrepreneurship in Agricultural Markets, American Journal of Agricultural Economics.*

Table 24.1 Comparative study on emerging market vs. developed market, "Prepared by Author"

Country/region	Current market	Current growth	Future market	Future growth	Challenge	Growth driver
USA	Mature	Moderate growth	Mature market, moderate potential	Slowdown of growth expected	Declining growth rate	New entrants and innovation
UK	Moderately high developed market	Low growth rate	Moderate growth potential	Slow growth due to weak economic condition	Slow economic and overall growth	Innovation and new product introduction
Europe	Moderately developed	Low to moderate growth	Moderate growth potential	Slight decline in growth rate	Weak economy	Innovation, certain unpenetrated regions
Emerging countries						
China	Moderate market	Strong growth potential	Opportunistic view	Strong expected growth	Government regulations, presence of duplicated products	Huge penetration opportunity
India	Low and underdeveloped market	Strong growth potential	Opportunistic view	Strong expected growth	Low technical knowledge, high initial implementation cost	Huge penetration opportunity
Brazil	Underdeveloped market	Strong growth potential	Opportunistic view	Strong expected growth	High initial implementation cost	Huge penetration opportunity

B2B Market Opportunities

The hardware market is the largest segment and is expected to continue its dominance through to 2020. However, this category is projected to achieve slower growth than for software, which will hit a CAGR of 14.4% from 2016 to 2020.

As per the research study, the developing markets, the precision farming technologies (European Union 2014) market in North America, and particularly the USA, are already a mature market. While the software segment is still developing in other regions, it has already witnessed strong adoption in the US market. In the software segment, farm management software is the largest category. Farm management software is already an established market in the developed countries.

Developing Countries: Farming Technology

The traditional agriculture societies in developing countries have been taking attempt to transform into informative societies and hence require good change management process, support from government or private institution for infrastructure and funding. The development of innovative technologies, precision farming in agriculture emphasizes knowledge intensity; hence, the agricultural paradigm in the developing countries needs to remould to take advantage of available knowledge bank from developed countries and adopting quickly for income generation, food and nutrition sustainability and employment generation.

The connected information communication technology will play a major role in adding value to our agriculture growth in developing countries and with better design and implementation can recast existing overall appearance of challenge into opportunities in the agriculture sector.

B2B Market Opportunities

The opportunities in developing countries face prominent challenges such as a lack of technological knowledge and high initial implementation costs. In many countries in the region, the farms are generally smaller in size and unorganized compared to those in developed nation, and breakeven period is longer and remains challenge to farmer's community to shift from traditional farming practices to technology-based smart farming techniques.

As per the research study, the market of hardware is estimated to grow more than $700 million in 2020.

While the market is witnessing strong growth across all regions, developing countries are expected to show the greatest increase over the period. Most growth is expected to come from relatively technologically advanced countries like India, which still has a large agricultural presence. But these countries are likely to remain slow in adopting precision farming, partly due to low technical and scientific farming technique, and unorganized way for functioning.

Strategic Challenges in Developed Versus Emerging Countries

GDP Growth Rate

Among the emerging market, China and India are the fast growth economy in the world. The below report which clearly shows the GDP forecast growth rate till 2018 of both developed and developing countries.

Developed markets such as USA, Canada and UK are matured and statured (OECD 2012). The opportunities of agribusiness in these countries will be low when compared to emerging countries (Fig. 24.2 and Table 24.2).

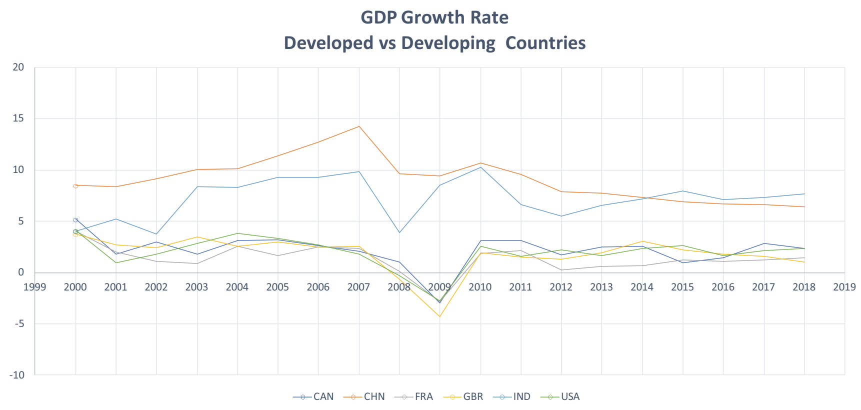

Fig. 24.2 GDP growth rate for Developed vs Developing countries, Prepared by Author

Table 24.2 Challenges in implementation—developed vs. developing countries, Prepared by Author

	Developed countries	Emerging countries
Market and growth	Matured, slow	High growing
Other challenges		
Arable land	Low	High
Technological acceptance	High	Low
Integration issues and challenges	Moderate	High
Implementation cost	Low	High
Maintenance issues and cost	Low	High

Arable Land

Arable land is the percentage land used for agriculture and farming purpose. The trend clearly shows the developing countries arable land is saturated and has come down over the decade whereas the emerging countries China and Brazil showing high growth and production.

It is very surprising to see India arable land percentage stands close to the developed countries from the year 1960 onwards. Various Green Revolution Initiatives after independence are key reason behind India's high percentage of arable land but unorganized and low productivity in production (OECD Data 2016). However, India is able to sustain the arable land over past five decades, whereas decline is observed for developed countries (Fig. 24.3).

Implementation Cost

The key challenge in adopting the precision farming technology in the emerging regions is high initial implementation costs. The developed regions are technology-intensive and have established precision farming set-up. This means that the only cost to farms in developed regions is for new additions and maintenance. However, farmers in emerging regions are more cost-sensitive. Precision farming equipment comes at significantly high cost and sometimes can have a long turnaround time. This makes it difficult for users from emerging regions to measure the benefits immediately after installation.

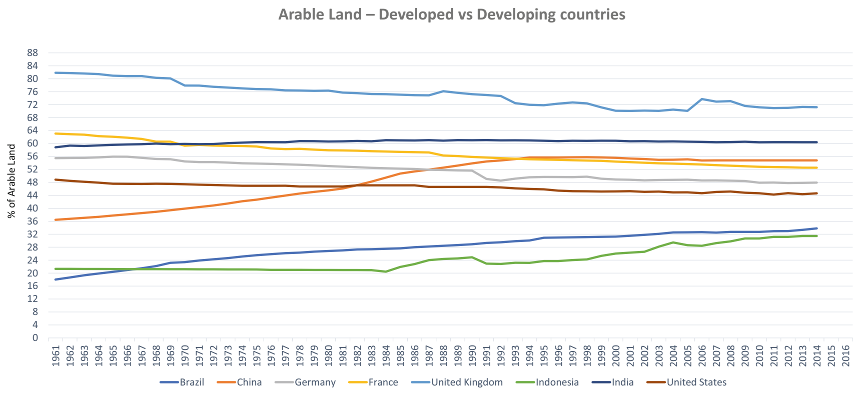

Fig. 24.3 Arable land report (1960–2017) for Developing vs Developed countries, Prepared by Author

Although the initial implementation cost is expected to come down with increasing penetration of large vendors, this is still expected to remain as a key hindrance to market growth in some regions.

Farming Technologies—E-Commerce Solution in B2B Market

The global smart farming technologies market can be categorized into software and hardware markets.

Software market accounts high growth rate compared to hardware market. The developing countries' investment in software is most expected over the next 3–5 years, and technologies such as big data, Internet of Things, artificial intelligence and blockchain will be the most interest of area for farming-related software e-commerce platform.

Hardware market involves higher prices of hardware equipments along with experienced engineering skill for designing and integration. The developed countries are highly matured in manufacturing hardware parts with low cost (European Union 2014). Another important factor to be considered in this market is compliance in Hardware manufacturing standard, i.e manufactured components need to compliance with international standards for easy assembling, avoid hardware compatibility issues, provide high equipment performance with long duration.

The hardware market will be dominated by developed countries for next 3–5 years, the primary advantages are availability of cheap hardware components, Design and Engineering knowledge and most of developed nation are member of International committee who defines standards of hardware and software component and interoperability such as International **Electrotechnical Commission** (IEC).

Software applications include productivity analysis, advanced analytics and decision support and crop management. The global smart farming software technologies market mainly consists of farm management software, which accounted for 72% of the market in 2017–2020. The market can be broadly categorized into the following two segments:

- Farm management software.
- Others, which includes all other forms of software involved in precision farming such as control software, location software.

Empirical Study on Transforming Agriculture and Agro-Based Industries in India

A research study from developing countries (India) has seen extreme increase in mobile Internet usage in rural population. The farmer community in rural India started adopting the technology, government initiative such as "Digital India" and "Make in India", and foreign direct investment has encouraged many start-up companies and organization to launch and support new digital platforms for farmer and focusing towards agriculture industries. Crop Insurance, e-Choupal, mKisan and KrishiMitr platforms aim to support farmers and established connectivity with various value chains in agriculture platform.

As per study report,[3] the number of request in crop management is high. Nearly 1 billion request has been reported under advisory/information/service (2013–2016) across India. This graph is evident to show there is a huge business opportunities in crop management market. To bridge these gaps, there is need of e-commerce platform using mobile Internet (Fig. 24.4).

Crop Management System—E-Commerce Platform

The crop management system provides the e-commerce solutions for B2B market in emerging countries. The key stakeholders of this platform are

- Farmer,
- Supplier,
- Buyer.

To increase the yield, agricultural products such as seeds, fertilizers and end-to-end farm management of smart farming solution are recommended. Enabling the technology, **connected agriculture solutions** and processes data from multiple sources—including weather forecasts and water supply, electricity usage and machinery, logistics—need to store in a centralized system. Further, all these data from various source can be pushed into a data centralized layer and can be used for estimating or forecasting demand, product recommendation based on soil condition, equipment lifespan prediction by applying data analytics and machine learning techniques (Fig. 24.5).

The connected agriculture solution uses a hand-held/smartphone application to connect cloud-based analytics engine and facilitate the better utilization of resource. With this agriculture e-commerce solutions field's land and crop details, as well as a farmer's planting plan can be sent to agriculture product supplier. A mobile application with personalized recommendation features can provide crop

[3] *State of Indian Agriculture 2015–16, report published from India Agriculture division.*

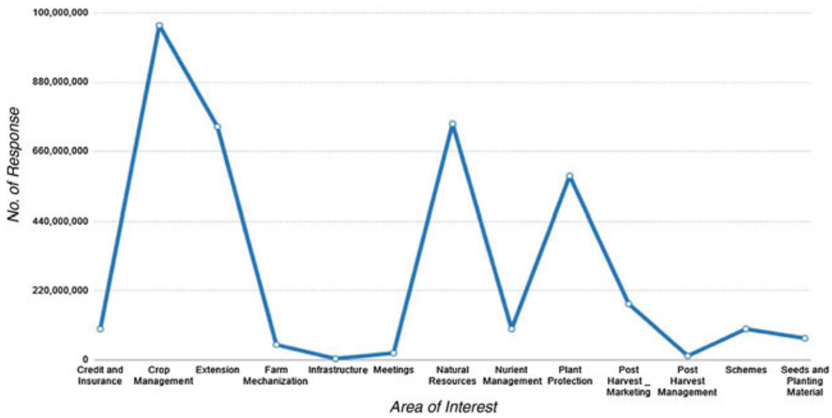

Fig. 24.4 Topic-wise query report by Indian farmer, "Prepared by Author"

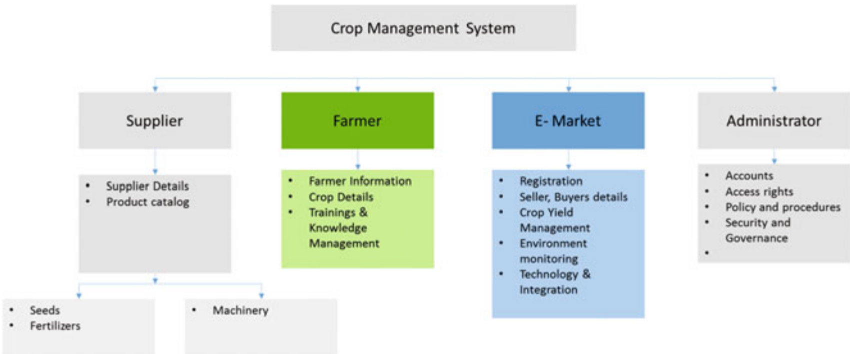

Fig. 24.5 Crop management system, "Prepared by Author"

management tips, smart irrigation connectivity to pumps, seed quality and yield performance-based on different conditions of soil and weather. This mobile app can connect the farmers' community with agro-input product supplier and other system like banking, cold storage warehouse, insurance and recommend pricing of crops based on market information.

Digital Scorecard System for Agriculture Performance

Growing demand, limited resources, huge productivity gap, need for sustainability —agriculture faces all these problems. Farmers and firms have to produce more from less land, protect the environment, ensure food security and answer legal quality and safety requirements at the same time.

Productivity measurement for framers to manage their resource better and earn more returns of looked into business point of view. Using the e-commerce platform, data patterns and other environmental factors, supply and demand can be studied using data analytics and modelling and framer community can plan the resource accordingly. And digital scorecard as shown in figure can be used for tracking on the productivity and performance (Fig. 24.6).

Fig. 24.6 Scored system for productivity measurement, "Prepared by Author"

Business Model for Crop Management System

A revenue generation model is carefully designed to improve the lifestyle of farmer and support their resources. Proposed business model ensures high efficiency in production, better utilization of agriculture machinery, logistics and provides opportunities to leverage technology services for smart farming. With this model, now a small farmer will have easily access to land, required machinery for particular landscape and supply of electricity, water and transportation from nearby rural society. This model will also help the rural society to earn profit by lending their resources, typical example of **Infrastructure as a services** model (Fig. 24.7).

E-Commerce Business Opportunities

Agriculture OEM

Agricultural OEMs are the large traditional players with established presence in the market. These companies provide hardware and software and have a strong geographic presence as well as an established customer base. In addition, these companies typically make acquisitions in order to expand their reach into other regions, as well as to gain ownership of competitors' technology.

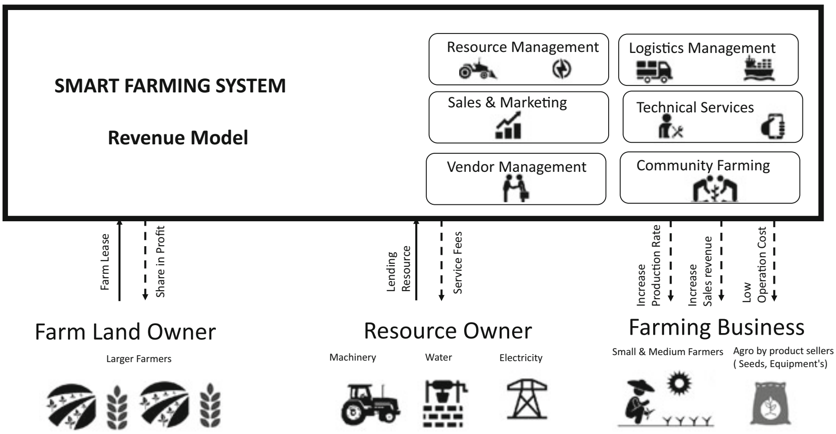

Fig. 24.7 Business Model for Crop Management System, Prepared by Author

Supplier

These are traditional suppliers that mostly are not aligned to any specific sector. Along with agricultural products and solutions, these companies are also involved as suppliers in other industries that may not be involved with precision farming. Most of these companies are well established in their respective space and already have a strong customer base.

Seed Companies

Seed companies are mostly the traditional well-known large agricultural products (such as seed) manufacturers. Although these companies were not typically involved in precision farming or other agricultural technology, they have slowly moved up the value chain to extend their product portfolios. Seed companies can also have a foothold in advisory and insurance services, meaning they are able to offer a wider portfolio of solutions and services. Mainly due to their large established presence, seed companies are well equipped to acquire smaller technology suppliers.

IT/Big Data Companies

These are purely technology companies that are well known for their big data, analytics and other technology offerings. Along with the agriculture space, these companies serve a large number of other industries as well. Due to the constantly changing nature of this field, this remains one of the most dynamic fields in the precision farming space with frequent launches by new companies. In addition, this space sees large number of acquisitions and joint ventures.

Connected Farming/Hardware—Internet of Things (IoT) Companies

These providers offer high-tech solutions such as drones, sensors and control systems and automation systems. Advanced solutions providers are both established companies, as well as new entrants. These companies directly support the application of precision farming technologies.

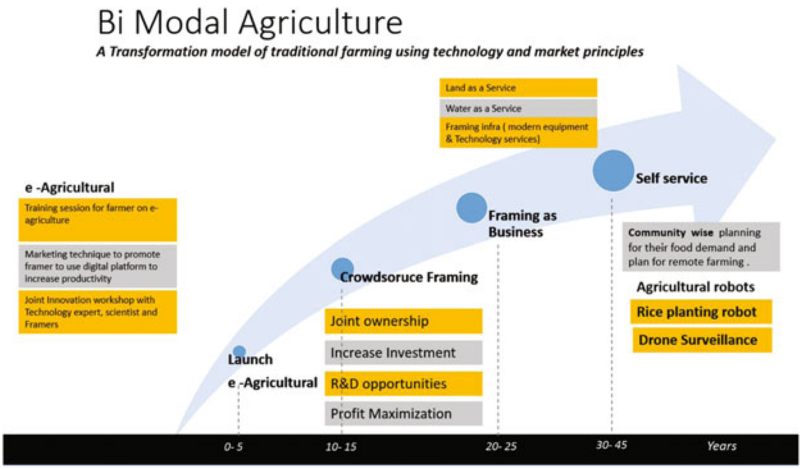

Fig. 24.8 Bi-Modal agriculture transformation model for future agribusiness, Prepared by Author

Framework for Future Agribusiness—Emerging Countries

The proposed Bi-Modal framework is recommended by author based out on the understanding and study of agriculture and technology in this article. The agribusiness and necessary process transformation is required for high production, demand based on customer and limited resource supply (Fig. 24.8).

Conclusion

The benefit of e-commerce platform in B2B market of developing countries shows positive sign based on the adoption of technology in developing countries. With the support of government initiative and agriculture institution, the awareness of technology advantage needs to be socialized and penetrated deep into farming community.

Many farmers still strongly believe in traditional system of agriculture practice and show less interest on the following scientific approach. However, in recent times a shift is observed in farming community where mobile Internet usage gained the trust but still need to penetrate deep into connecting various system as explained in this article. A business model proposed for agribusiness in support of Bi-Modal agriculture transformation from traditional to modern was presented in this article as a case and opens forum for readers for discussion on this topic.

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Chapter 25
Strategic Market Segmentation for B2B Enterprises

Ranjeet Singh

Introduction

Market segmentation is one of the key strategic planning and decision that companies have to take while starting their operation for the first time or expanding their businesses or even when launching a new product or service.

Typically, market segmentation approaches suggest dividing the market basis underlying factors like psychographic, geographic and demographic orientation of consumer markets. The same, however, does not apply to business-to-business (B2B) markets where the buying is not for individual consumer but for the organization itself. Various textbooks suggest segmenting the market basis size of the organization in terms of either revenue or number of employees working in the given organization.

In Gartner views, if the organizations' revenue is less US$ 50 m or it has less 100 employees, then the organization is classified as small; organizations with up to US 1b revenue or up to 999 employees are classified as medium; any organization exceeding prior two criteria is classified as large.

The same benchmark cannot be applied to emerging markets like India; according to a research conducted by Zinnov, India has 51 million SMB companies out of which 96.3% SMBs are actually classified as microenterprises those employ less than 10 employees, 3.4% are small enterprise having up to 99 employees and only 0.3% are medium enterprise having up to 999 employees working for them.

For B2B products or services, organizations operating in developed markets who want to enter into emerging markets such as India thus pose a huge challenge in understanding the market segmentation and adequately tapping them per their requirements. Geographic distribution of these 51 million SMB between urban and rural area across India makes the segmentation complex.

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A. Adhikari (ed.), *Strategic Marketing Issues in Emerging Markets*,
https://doi.org/10.1007/978-981-10-6505-7_25

Another dimension is segmentation by industry; at broad level, industry can be segmented as Banking, Financial Services & Insurance (BFSI), Manufacturing, Government, Education, Telecom, Retail and Media & Entertainment, etc.

While emerging marketing provides for a huge opportunity for growth, it also requires associated cost to be incurred to tap diverse market. This project work is an attempt to highlight these segmentation issues that could serve as a starting point for any B2B company who wants to enter into emerging markets as part of their expansion strategy.

Emerging Markets in Comparison with Developed Markets

The term *emerging markets* was first given at International Finance Corporate (IFC) in 1981 for launching financial products in developing countries. Tarun Khanna and Krishna G. Palepu in their book titled "Winning in Emerging Markets: A Road Map for Strategy and Execution" define emerging markets as the markets characterized by low or middle income, low average living standards, lack of industrialization, underdeveloped capital markets but having huge potential of growth owing to economic liberalization policy of that country. They also talk about institutional void, referring to lack of infrastructure, immature factor markets, immature intermediaries and the absence of solid regulatory framework to support large-scale businesses.

Developed markets thrive on fully developed institutions, well-funded capital markets, intermediaries, well-defined and enforced regulatory framework. A large chunk of population dwells in urban clusters in developed markets. For example, 83% of the population lives in urban or urban clusters while only 17% lives in rural area in the United States of America (Source: whitehouse.gov); 81.5% population live in urban areas, whereas only 18.5% in rural clusters in United Kingdom (Source: 2011, census data); 69% of population lives in major cities, while 20% in inner regional areas and rest in remote areas in Australia.

Given a high per capita income and minimum wages rule provides for the segmentation of the B2B businesses in developed markets purely due to large area urbanization.

Compare it with emerging market such as India where 73% population lives in rural area; only about 6–7% population lives in top eight urbanized cities and rest in semi-urban areas. This opposite distribution of population as compared with developed markets causes lower per capita income given that the earning capacity of large population base is far lower in rural areas. It gives rise to many small-scale businesses, very small in size by revenue or employees' size.

A US$ 50-m-revenue size organization (small organizations in the USA) translates to INR 340 Cr. for Indian businesses, and they by no means are small businesses in India but medium-size businesses. A report by The Economic Times suggests that about 45% of SMBs are located in rural areas and 82% of all SMBs are located in ten states in India.

Market Segmentation in Developed Markets

Business-to-business (B2B) enterprises are engaged in offering products, services or solutions to the organizations of varied sizes, typically classified as large, medium, small or micro based on either revenue size or number of employees working in those organizations.

B2B companies here mean that those companies providing industrial goods, engaged in consultancy business, selling information technology and telecom-related hardware or software products, office supplies, etc.

Since about 80% populations live in urban areas, the markets are well developed and business are of decent sizes (refer to Gartner's classification in Introduction section) coupled with a high degree of technology adoption by organization and equally high degree of awareness and acceptance to utilize technology by the clients.

Smaller and medium clients find themselves comfortable in using technology to see virtual demo of the products, go through the product literatures and engage with inside sales team to make purchase decisions. For an example, one of the leading enterprise software solution companies uses low cost inside sales team effectively to sell software solutions up to US$ 75,000. Inside sales team uses Internet and Web-conferencing tools to complete the sales cycle quickly and is able to collect the purchase order over phone and email.

However, for any deal that is greater than US $75,000, a dedicated on-field Key Account Manager (KAM) would be assigned to lead the sales cycle. KAM would be responsible to map key stakeholders and maintain long-term business relationship with the client.

So for the developed markets, this market segmentation works where B2B companies are able to create a balance between high-cost and low-cost sales force to effectively segment the market and successfully cover the clients.

In developed markets, B2B market segmentations are done based on revenue size and number of employees in the target client base. Following this segmentation criteria, these target clients can be well defined as large, medium or small enterprise. Geographic coverage considerations are given lesser priorities as latest technology and superior infrastructure allows B2B companies to access the clients easily.

Markets have matured in developed economies, so the clients too have matured. The use of e-commerce platform (online marketplaces) has become routine for B2B markets too. SMB clients find it convenient to purchase their routine industrial goods requirements from online marketplaces like www.grainger.com which is one of largest online players in the US market.

Wide acceptance of online channel has helped SMB segment to reduce their cost of information discovery as they no longer require to search and contact multiple vendors face-to-face which is time-consuming and costly process. Online marketplaces provide plethora of choices from multiple vendors at one place that is easy to search and compare with. Disintermediation of channel has been possible as online has cut long distribution chain which further has offered cost advantages to the clients.

For B2B sellers, online has proven to be a boon as large geographical coverage can be easily done through listing the products on the online marketplace. Likewise sellers can cater to various industries' specific needs through online marketplace. The disadvantages of earlier physical sales coverage model seem to have vanished.

The new segmentation for developed markets can be looked as follows:

For cross-industry product sellers	For industry-specific product sellers
• Organize by **clients' size** **Large-to-medium clients**: field sales team **Small-to-medium clients**: online marketplace and inside sales team	• Organize by **industry segment** **Large-to-medium clients**: field sales team **Small-to-medium clients**: online marketplace and inside sales team

"Prepared by Author"

Geographical coverage for small-to-medium clients is taken care off by online and inside sales team. For large clients, companies may still require to deploy highly trained sales and technical teams for effective sales coverage.

Market Segmentation in Emerging Markets

B2B companies, those are quite successful in developed markets, face tremendous challenges when they enter into emerging markets. Fundamental challenges being political uncertainty, underserved capital markets, weak labour markets and laws, lack of market research data and cumbersome regulatory processes.

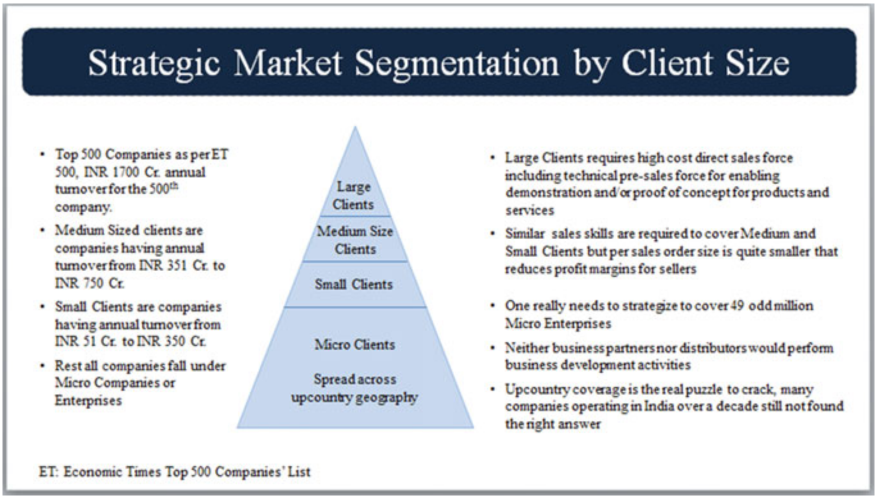
Aside those fundamental challenges, there are various target market-related challenges, and some of them are illustrated below:

- **Classification of target clients**: As noted in the introduction, the clients are classified as large, small or medium depending upon either their revenue size or number of employees working. The segmentation norms do not correctly apply in emerging markets as majority of the clients (target companies) are actually microenterprises. These microenterprises may require some bit of customization that may prove to be costly given low returns on investment from each clients.
- **Geographical (sales) coverage**: While large companies are situated at big urban areas (top eight cities in India–Delhi/NCR, Mumbai, Kolkata, Chennai, Bengaluru, Hyderabad, Pune and Ahmedabad), there are about 51 million SMB clients those are spread over various states in India. Sales coverage of these clients becomes a real challenge given the cost associated to cover them. Even inside sales or email-based marketing coverage proves to be ineffective where the products are highly technical or requires customization or a proof of concept to be shown on clients' premises. Development of advance virtual sales platform specifically for emerging markets would put additional cost pressure.
- **Inadequate returns on investment**: The sales cycle for selling a similar product or service to either large or small client is the same, given the same efforts needed; the returns realized do not justify engaging with small and microenterprises. Alternate channels like business partners also do not see it as a lucrative business proposition due to high coverage cost. Most of the business

partners generally deal in multibrands; they are more comfortable dealing with a limited set of profitable clients by offering multiple brands offering rather than being exclusive to few products. That leads to a competition for partners' business wallet share.

- **Lack of developed online marketplaces and reluctance from clients**: Unlike developed markets, emerging markets like India still make industrial or corporate procurements through one-on-one client/vendor relationships. Credit terms are one of important aspects. Online purchases require upfront payments to be made, while offline offers 15–45 days or even more credit period depending on the type of products or how the deep relationship between client and the vendor. A few companies in India too have started venture in online marketplace like www.tolexo.com, www.industybuying.com, www.ofbusiness.com and www.power2sme.com etc. These start-ups are still at very nascent stage. Many of them still do not offer credit terms as available to clients on offline mode; hence, clients prefer to procure via offline mode to better manage their working capital as the biggest challenge for smaller/microclients is "managing working capital".

Figure below summarizes market segmentation challenges faced by B2B companies in emerging markets (India):



"Prepared by Author"

Another way of segmentation can be seen by putting dimensions of segmentation together as no one way offers an optimal mix of defining target markets. All industries would be spread across geographic locations; likewise all sizes of clients would be operating in all industries across all geographies. Should companies align their resources by geographies or build on industry domains or just look at by client sizes?

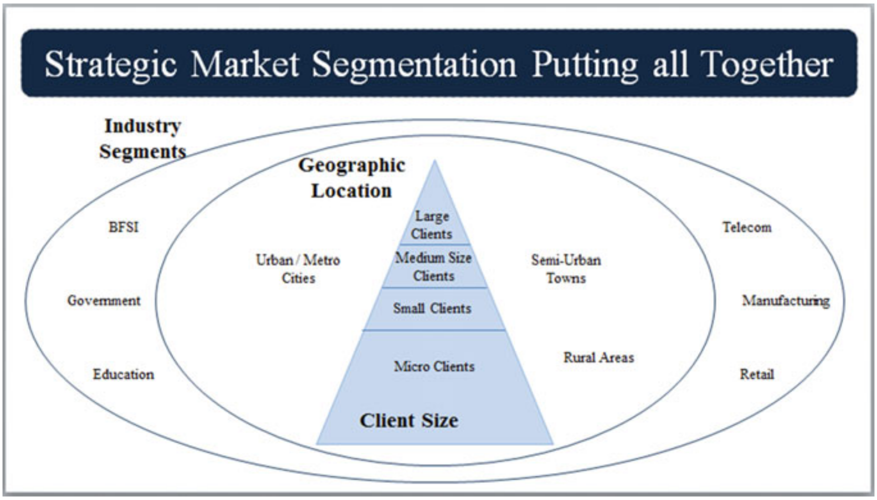
The issues that would require a deep consideration would be:

- If resources are organized by client size while ignoring the industries, then the company would end being generalist without having any deep understanding of any industry. Domain knowledge is very important to build an effective sales strategy.
- If resources are organized by industry, then company would create a highly specialized resource pool, which would certainly be costly than generalists. Engaging them in smaller size clients would not result in expected return on investment; rather in many cases, it would prove to be negative returns proposition.
- If company aligns the resources by geography, then it would have to duplicate the resources at each location, thus increasing the resource pool significantly higher than the expected return. Also, it would be somewhere between specialized or generalist approach.

B2B companies have struggled to align its resources to fully exploit the potential of emerging markets. Large clients' engagement is time-taking process; it requires building personal relationships with multiple stakeholders with each client. For example, if an IT software seller wants to sell its technology platform to the client, then it requires to understand first who are the evaluators of the technology, who are the influencers to adopt any new IT system, who would be actual users of the systems, who is the purchaser of the system and who are the decision-makers to sign off the purchase order and cheque.

Given the complexity of managing one client and long sales cycle per sales order, companies need to plan their segmentation and coverage priorities.

The following figure depicts interconnectedness of all the three dimensions of segmentation of B2B market:



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Discussion

Emerging markets do offer great opportunity, and there is huge scope of economy to develop through the financial transition of the lower-middle-class to the upper-middle-class, upper-middle-class to upper-class population. Likewise poverty alleviation would see a large chunk of population growing into lower middle class pushing the consumption levels and demand of various consumer goods. In turn, it would spur demand in industrial sector as demand needs to be fulfilled by the industry, thus presenting a big growth opportunity for B2B sellers too.

The huge opportunity is not only available to domestic players but also to international players, especially post-liberalization of economies like India. Emerging markets being a fertile place obviously become the most wanted place for all the companies those are looking to expand beyond their home turf, and slowly it turns out to be highly competitive zone for all the players.

Lower per capita income levels already force the companies to price their products with lower margins. The presence of large-to-small-scale clients spread over vast geographical region poses another challenge and adds to cost pressure, and on top of increased cut-throat competition further erodes the profitability and makes companies to bleed to remain in the market.

Correct segmentation of market and focus then becomes imperative to survive in such a market scenario.

For example, when Dell entered Indian market, it replicated its direct selling to end customer model to its both B2C and B2B clients. Since we are talking about B2B segmentation, this example would be addressing only B2B side of the story. Dell initially employed highly skilled sales team to cover large clients who would directly manage the relationships with them without any distribution channel or partner. They would close the deal and service directly as well. That model was new in India, since there were no intermediaries between Dell and the clients, the price at which Dell could offer was far more exciting than the rest of the competition (HP, IBM and others). However, once the coverage of large clients was (mostly in big cities like Delhi, Mumbai, Chennai, Kolkata, Bengaluru and Hyderabad) done, Dell started to feel the pressure to grow the number and remain profitable. The next set of growth would only come from moving into upcountry market (also called tier II and tier III cities) where per deal size could not match with big cities' deal sizes. Sustaining with direct sales force was no longer a viable option. Last few years, Dell has been trying to move towards indirect (through channel partners) but is yet to find the success as it had seen in large clients' base or big cities.

Two things come out from above analysis—Dell initially did not spread itself too thin, meaning did not go out all over the place but just focused on large clients and won that market segment comprehensively and then started to expand into next segment of market which was upcountry and medium-to-smaller clients. On the other hand, once Dell established itself as a direct selling company, it found itself on the wrong side with industry's distribution channel ecosystem as they believed that Dell can never be trusted to partner with, the DNA of Dell is selling direct.

However, in reality in India, expanding into tier II and III cities cannot be achieved without partner ecosystem support.

It is very hard to conclude then whether Dell's approach was a real success. Whether Dell should have had mixed model (direct and indirect) at the beginning to cover various B2B market segments (by Geo and size) or has Dell taken a calculated and informed decision to first cover large clients segment first and then to figure out what to do with upcountry or small clients coverage?

Recommendation

Tarun Khanna and Krishna G. Palepu in their book titled "Winning in Emerging Markets: A Road Map for Strategy and Execution" recommend three strategy choices to the company those are aspiring to explore emerging markets, i.e. Adapt your strategies, Change the context or Stay away.

When in Rome, do as the Romans do! As we have seen Dell as an example, while in developed markets it works on direct selling model; however, in India it has partnered with local resellers to cater to tier 2 and tier 3 cities shedding its inhibition to work indirect.

Changing the context is not so easy, however, in long run to win in emerging markets bold and calculated bets need to be taken. IT giants like IBM, Oracle, Adobe, Cisco have set-up their R&D centres in India and have been able to capture a large chunk of Indian IT investments.

Staying away is no-brainer—companies are just happy swimming in their private pools and do not get excited about sailing through sea waves.

Given the complexities of operating in emerging markets, the B2B sellers should prioritize their market segments, build focus and choose the battle to win rather than trying to win entire market. Being focussed would help them to build specialization that would serve as sustainable competitive advantage. In the process, one may have to take a decision to trade-off between immediate short-term goals and long-term goals. As long as companies are well aware of what they want to do, actions would provide expected outcomes, hopefully!

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Chapter 26
Strategic Marketing Consideration for IT Industry

Surendra Prakash Shukla

Abstract Marketing division in Indian IT companies is not being utilized to its full potential. In this chapter, there are suggestions to revamp IT companies' marketing departments, make them more empowered, and enable them to be part of strategic decision making. Authors will also try to list down key strategic marketing questions faced by both small/mid- and large companies. Response to the questions would be aligned to overall mission and vision of the companies, but authors are trying to give a generic approach. Finally, each strategic question should be part of an organization's overall short- and long-term strategy.

Introduction

IT industry has a unique place in India as the highest job generator in the past few years. While most of the IT industries operate in a predefined business model, with minimum variation from one company to another, these companies are mostly sales-oriented and marketing activities are mostly limited to creating collaterals for customer visit. Therefore, marketing departments are hugely underutilized in IT companies.

In this chapter, there are suggestions to revamp IT companies' marketing departments, make them more empowered, and enable them to be part of strategic decision making. This chapter will also try to give few generic recommendations based on author's 15+ years' experience in IT and 6+ years' experience is working in IT sales/pre-sales divisions.

Authors will first try to explain how they would classify a small vs. mid- vs. large IT organization. Second, they will be listing major business and technological disruptions. These disruptions are presenting major challenges as well as opportunities to these companies. Companies who would manage the challenges and reap the opportunities will emerge as successful in long run.

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A. Adhikari (ed.), *Strategic Marketing Issues in Emerging Markets*,
https://doi.org/10.1007/978-981-10-6505-7_26

Authors will also try to list down key strategic marketing questions faced by both small/mid- and large companies. Response to the questions would be aligned to overall mission and vision of the companies, but authors are trying to give a generic approach. Finally, each strategic question should be part of an organization's overall short- and long-term strategy.

IT Industry in India

India is the world's largest outsourcing destination for the information technology (IT) industry. It accounts for approximately 67% of the US$ 124–130 billion market. It is also one of the main employers by employing about 10 million workforces. More importantly, the industry has led the economic transformation of the country and altered the perception of India in the global economy. There are few factors which are contributing to IT industry growth in India:

- India's cost competitiveness in providing IT services, which is approximately 3–4 times cheaper than the USA, continues to be the mainstay of its unique selling proposition (USP) in the global sourcing market.[1]
- India has a large-scale English-speaking workforce, which makes it easier for India to get business from English-speaking developed countries.

The Indian IT sector is expected to grow at a rate of 12–14% for FY 2016–17 in constant currency terms. The sector is also expected triple its current annual revenue to reach US$ 350 billion by FY 2025.[2]

In the paper 'International Outsourcing in the Information Technology Industry: Trends and Implications' published in 2003 by Galen B Crow and Balakrishnan Mutuswamy, the authors have observed following:

> India remains the clear leader in global IT outsourcing with an increasing supply of English-speaking, technologically-educated, and low-cost workers, combined with a rapidly improving telecommunication infrastructure. These factors plus an early adoption of international software quality standards ensures that India will continue to provide increasing outsourcing services for years to come.

IT industry in India can be classified as per their size. We can broadly classify them in three categories based on their size.

Small Players—There are thousands of small players competing in niche markets. One can classify these companies with yearly revenue of less than Rs. 100 Cr or employee strength of less than 100 employees.

Mid-size Companies—These companies do not offer broad spectrum of services or products. They offer a limited range. Yearly revenue could be Rs. 100 crs–1000 crs, and employee strength from 100 to 5000 employees.

[1] http://www.ibef.org/industry/information-technology-india.aspx.

[2] http://indiainbusiness.nic.in/newdesign/index.php?param=industryservices_landing/395/3.

Large Corporations—These are large companies with yearly revenue of more than Rs. 1000 crs and employees strength of more than 5000+ employees.

We also have conglomerates such as Accenture, Hewlett Packard Enterprise, TCS, Infosys, Wipro with employee strength of more than 50,000 employees in India. But for the scope of this chapter, these companies are considered part of large corporations.

Small- and Mid-Size Companies

Typically, small and mid-size corporations do not have a separate marketing department. Strategic marketing strategies are largely ignored. These companies either depend on external reports (such as from Gartner etc.) for their marketing intelligence or rely on the wisdom and experience of their employees, mostly sitting in senior management.

Due to lack or limited marketing intelligence, these companies often rely heavily on few individuals for their guidance for making the strategy. Hence, they put themselves under tremendous risk if such individuals jump ship to join other organizations. You can see strategy changes with management changes, and hence, these small and mid-companies often lack a coherent and consistent long-term strategy.

However, these small companies do have an advantage. Because these companies do not spend much on marketing, they tend to offer their products/services at much more competitive price to their customers, than their large competitors. These small/mid-companies are super-efficient in the delivery of the services because they do not need to bear the burden of overheads.

On the contrary, lack of long-term strategy makes it very difficult for these small companies to grow by means of diversifying their offering or acquiring new markets/customer. As a result, these companies do not grow at a fast pace, and often, the promoters prefer not to take risks.

Large IT Companies

On the other hand, large IT companies do have their own marketing divisions. However, in most cases, as have been seen, marketing divisions are engaged in activities such as

- Creating client presentations;
- Managing customer visits;
- Running ad campaign;
- And in some cases, managing social media arm.

This, however, adds some overheads to overall pricing, and thus, these companies are not competitive in terms of price, than their smaller peers. It is a conventional wisdom in the boardroom of these large companies as not to compete with smaller companies for small work.

However, the marketing divisions do not add any value when creating an overall product and service portfolio, selecting target markets and customers, and creating short- and long-term strategy.

Technological Disruption

Until few years back, large and small/mid-companies used to operate in their own domain. They were seldom competing with each other, as business requirements were so diverse. Large projects required considerable amount of investment, man power, domain expertise, and integrated solution—which was not possible for a small organization to commit. However, technology such as cloud and mobility has cut down lots of these requirements. Now, new projects, due to the introduction of cloud and digital technologies, do not require the same amount of investment. The domain expertise is easier to build and acquire from the market.

This has enabled small niche players to start competing with large IT companies and start winning deals against their larger competitors.[3] In addition, the CIO journal has predicted the average deal size is becoming smaller. In 2005, average deal size for top 100 outsourcing contracts was $680 m, which fell to $390 m in 2015.[4]

Smaller-size deals are further enabling small companies to compete against the large players. All of a sudden, there is a wide open option for both large- and small-/mid-sized IT companies.

Key marketing questions in front of small companies, in present business environment, are as follows:

- Should they diversify into new areas such as cloud and digital and start competing with large IT players?
- What are the target markets they should be focusing on? Who should be their key customers?
- Should they be acquiring new customers (hunting) or mining the existing customers (farming)?

whereas key marketing questions in front of large companies are as follows:

- How to bring price efficiency in their offering, to compete with smaller, more efficient players?

[3] http://economictimes.indiatimes.com/tech/ites/small-it-companies-snatch-deals-from-tech-giants/articleshow/52807605.cms.

[4] http://blogs.wsj.com/cio/2016/05/23/outsourcing-contract-deals-are-getting-smaller/.

- Should they be going after new customers, considering existing large base of customers?
- Should they be rationalizing their product/service offerings? May be they should retire some offering not in demand and add new offering to match new business dynamics?

These are key questions, and marketing divisions should be utilized to take informed decisions. If these questions are not answered in a timely manner, and right strategies are created, then we may see major shake-up of the IT companies as we see them today.

Growth Strategy for Small IT Companies

The global business outlook has changed considerably in the last couple of years. Many core industries are witnessing major disruptions. Oil and gas industry is struggling due to drop of oil from $150 per barrel to $50 per barrel. Similarly, environment-related legislation is disrupting all business from manufacturing, to utilities, to forest industries.

IT industry is completely dependent on core industries. IT industry is impacted badly due to slowdown and disruption in the core industries, and smaller companies have taken a greater hit than the large ones. Smaller companies need robust strategy to survive in long term.

First key question faced by smaller companies is how to diversify their existing product portfolio. This question is critical for smaller IT companies, because they have limited funding for investment and a wrong portfolio selection could mean point of no return.

A marketing team is best placed to help management with such decisions. Small IT companies should consider setting up a marketing division, even if they have to start with limited staff. This team should be empowered and also provided with required resources to make them effective. Building a team and not providing them with proper resources and empowerment would be wastage of precious money.

Second important question for small IT companies is which segment/regions/industries to target and where are their key customers. This is an important question, because answer to this question will tell them how to build the skill set and domain expertise. Due to their size, it may not be prudent for these companies to go after every segment in each geography. Key questions in selecting key customers are as follows:

- Which geography to target—Americas, Europe, APAC?
- Which industry within the selected geography—Financial Services, Manufacturing, Oil and Gas, Healthcare, or something else?

- Who are the key customers within selected geography and industries—Should we target small, mid-, or large organizations in selected space?
- Can we effectively reach to our customers? Can we effectively solve their problems by our solutions?
- Can we acquire or build the skill set required to serve the target customers? Do we have the domain expertise—if not, then how expensive would it be to build the domain competency?

Final question for the smaller companies would be if they should be going after new customer acquisition or mine the existing customer base. Cost of acquiring new customer is about 5–8 times of retaining or additional sales to existing customer.[5] This adds complication as smaller companies have limited budget. However, these companies do not have large enough customer base so that they can do effective customer mining (or making additional sales).

Additionally, not acquiring new customer may result in overdependency on few large customers. This is risky situation because if a key customer leaves, then that could leave a large hole on top and bottom lines.

Author's recommendation for such small companies to selectively go after new customers and try to acquire 2–3 new customers every quarter. Win rates for such projects are around 30–40%, which means small companies may need to go after 3–4 deals just to win one new customer.[6] This way these companies will end up working on 30–40 new deals every year. They can also plan to bid for small total contract value (TCV) deals to manage the overall sales budget (sales budget is directly proportional to TCV).

Let us see few suggestions for each question:

Which geography to target—Americas, Europe, APAC?

Mostly all emerging markets, including India, have seen America as their preferred market. America's liberal outsourcing policies have always presented great opportunities to companies all over the world. But smaller organization may also look at conservative markets such as Middle East, who are not comfortable in working with large organizations.

Which industry within the selected geography—Financial Services, Manufacturing, Oil and Gas, Healthcare or something else?

This is an important strategic decision as building industry-specific domain expertise requires significant time and resources. Small companies can look at the defensive sector such as financial services to start building domain expertise. Technical disruptions are giving large opportunities to these smaller companies, and all such companies should have a digital strategy to create digital road maps for their customers. Digital Technologies do not require heavy investments, hence they are ideal for organizations with smaller R&D budget.

[5] http://www.streetdirectory.com/travel_guide/22072/sales/hunter_vs_farmer_how_do_you_sell.html.

[6] http://www.rainsalestraining.com/blog/average-sales-win-rates-how-do-you-compare.

Who are the key customers within selected geography and industries—Should we target small, mid- or large organizations in selected space?

Smaller companies have traditionally looked at small- and mid-size customers due to cultural compatibility. But, now even large customers are breaking large contracts into smaller pieces, so the smaller companies may selectively look to compete for large customer's business.

Can we effectively reach to our customers? Can we effectively solve their problems by our solutions?

As mentioned earlier, these companies should have a digital strategy. Digital solutions require less investment, and innovation of a solution makes them ideal for customers of all size. Additionally, digital methods are giving opportunities to reach out to target customers more efficiently than having an expensive sales force.

Growth Strategy for Large IT Companies

Large IT companies are facing unprecedented growth issues. They are facing stiff competition from other large organization. To make matter worse, their large customers are demanding deep discounts for renewal deals. The recent deal between BAE systems and CSC (an IT service provider) is estimated to value at $600 M, less than one-third of the size of the similar deals in 2005.[7]

Additionally, small niche players are giving tough competition to large IT companies. New technologies such as cloud and digital do not need large up-front investments, which makes these smaller companies competitive against their larger peers.

This makes marketing department role critical for large organizations. These companies have built a well-oiled marketing division over the years, but marketing divisions in these large companies are underutilized. These departments should help management in key decision-making process.

First challenge faced by large IT companies, especially when they are increasingly competing against smaller- and mid-sized players, is how to compete in price. Small-sized companies are sleeker with lesser overheads, which makes their price attractive for customers. Large IT companies must innovate to become more competitive. Or they can try to reduce their profit margins, but this is not a sustainable strategy. Most of the large IT companies spend 2–3% of their annual revenue on research and development activities. This money should be efficiently spent to make them more competitive. These large companies do not need to match in dollar value with smaller companies, but to come within in a range where they are not perceived to be overexpensive by customer. Marketing department should help product and offering teams to price the services/offering which is attractive for customers.

[7] http://blogs.wsj.com/cio/2016/05/23/outsourcing-contract-deals-are-getting-smaller/.

Second important question for large companies is to decide if they would like to be hunters (new customers) or farmers (additional sales to existing customers). Large customer base with these companies makes them very ideal candidate for farming. In fact, one can argue that these companies should altogether drop going after new customers and solely focus on their strategies toward selling additional offerings to existing customers.

Last question for large companies is to relook at their product and offering portfolio. Key questions they should be asking themselves are as follows:

- Do we have sufficient products and offering to serve our customers?
- Is there scope for rationalization?
- Do we have unprofitable products or offerings? Should we drop these or replace them with new ones?
- Do we need to build new offering or products?

All of the above questions can be answered effectively by having a product life cycle management strategy. It is important for large companies to continue to invest in research and development work so that products are future ready and addressing ever-changing customer issues and problems. These companies must continue to update their products as long as return on investment (ROI) is justified. When it becomes more expensive to update a product than the benefits it can expect in return, then the companies should consider retiring the product and replacing it with a new one.

Most companies are now investing heavily in areas such as cloud, analytics, IoT. However, marketing department should help management with answers to these questions.

Conclusion

Both small and large companies are facing major business and technological disruptions. Moreover, these companies are competing against each other for same businesses. Having said this, both small/mid- and large organizations have unique set of challenges and thus need different sets of strategy.

For smaller companies' important strategic questions are as follows:

- Should they diversify into new areas such as cloud and digital and start competing with large IT players?
- What are the target markets they should be focusing on? Who should be their key customers?
- Should they be acquiring new customers (hunting) or mining the existing customers (farming)?

whereas key marketing questions in front of large companies are as follows:

- How to bring price efficiency in their offering, to compete with smaller, more efficient players?
- Should they be going after new customers, considering existing large base of customers?
- Should they be rationalizing their product/service offerings? May be they should retire some offering not in demand and add new offering to match new business dynamics?

Marketing division of these companies should be helping management with answers to these key questions. However, it is essential that the marketing teams are not only empowered within the organizations but also provided with required resource (man power and budget) to make them truly efficient.

Part VI
Business Strategy

Chapter 27
Are Business Group Affiliation Advantages and Diversification Premium Found in Emerging Economies Likely to Hold Over Time?

Saptarshi Purkayastha

Abstract There are a large number of studies that have examined the diversification–performance and business group affiliation–performance relationships. However, very few have looked into the impact of macroeconomic environment on these relationships. In this paper, we examine under varied macroeconomic conditions, the impact of diversification, and business group affiliation on performance for firms. We argue that although diversification is influenced by macroeconomic parameters; the effect of business group affiliation is unchanged. Diversification results in superior performance during munificent macroeconomic environment while it has a negative impact on performance during scarce macroeconomic environment. In contrast, business group affiliation has positive impact on performance, irrespective of macroeconomic environment.

Introduction

The impact of diversification on performance has been a central theme of study for strategic management researchers. One sub-stream of this research—the role of diversified business groups in impacting the performance of their affiliated firms—has gained considerable attention, especially in emerging economies. Despite a growing volume of research examining diversification premiums and the merits of business group affiliation, previous studies do not point to easy generalizations. This ambiguity results mainly from conflicting findings that exist in the literature.

An earlier version of this paper has been presented at a conference in Indian Institute of Management, Ahmedabad. Details are available at http://vslir.iima.ac.in:8080/xmlui/handle/11718/11544.

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A. Adhikari (ed.), *Strategic Marketing Issues in Emerging Markets*,
https://doi.org/10.1007/978-981-10-6505-7_27

For example, while several studies report a diversification premium and show business group-affiliated firms outperforming non-affiliated, independent firms (Chang and Hong 2000), others conclude a diversification discount (Bae et al. 2002) and find no advantages of group affiliation (Chari and David 2012). While it is plausible that some of the dissonance in empirical findings can be explained by methodological differences across studies, it might be beneficial to systematically evaluate the conceptual arguments that relate to the benefits of diversification related and group affiliation groups, and the environmental context in which these benefits may be appropriated.

In this study, we examine how diversification at the firm level and business group affiliation affect firms' performance in fluctuating macroeconomic environmental conditions. Prior studies have investigated how macroeconomic shifts affect strategic reconfiguration, such as growth and survival (Randolph and Dess 1984), strategic changes (Koberg 1987), and decision-making (Goll and Rasheed 1997). Our work adds to this literature by investigating the effect of environmental munificence and scarcity on diversification and business group affiliation. Specifically, our paper investigates the following research questions. First, in emerging economies, are diversified firms, when compared with non-diversified firms, able to maintain their performance levels in environments characterized by scarcity and instability? We argue, from a resource-based perspective, that a firm accumulates resources and capabilities and deploys them in the market for products and services to derive competitive advantage (Barney 1991). The market environment then establishes the value of a firm's resource portfolio (Priem and Butler 2001). Consequently, as the market environment shifts from a munificent to a scarce environment, the competitive value of a particular resource will also change. Second, does business group membership positively moderate the diversification–performance relationship during periods of scarcity and instability[1]? We argue that it does because of the following reasons. First, from an institutional perspective, the intermediate institutions that business groups build over time continue to offer benefits to affiliated firms even in times of economic scarcity. As transactions become risky and expensive, affiliated firms tend to rely more on their networks within the group to overcome problems of scarce macroeconomic conditions (Peng and Heath 1996). Second, during scarce macroeconomic conditions, it is hardly realistic to expect business groups to instantaneously deploy course correction strategies. On the contrary, they are likely to continue the forward momentum by maintaining their chosen course while continuing to evaluate changes in their competitive context. The fundamental reasons for group formation—namely privileged access to information, ability to remedy entrepreneurial scarcity, and leveraging possibilities of reputational benefits—are unlikely to change in the short or medium term (Peng 2003). These advantages of business groups are likely to last

[1]Our study is concerned with the moderating effect of business group affiliation on the diversification-performance relationship as macro-environment changes from munificent to a scarce.

longer in an emerging economy, such as India, where the government's response to macroeconomic scarcity is often slow and delayed policy changes (Zattoni et al. 2009).

Theory

The Impact of Diversification on Firm Performance

Two theoretical rationales developed from the investigation of diversification's impact on performance, particularly in emerging economies (Li and Wong 2003). The first and most notable rationale relates to institutional-based theory that argues that greater diversification may enhance firm performance because of insufficient market and institutional developments (Khanna and Palepu 1997, 2000a, b). Through diversification, firms can create internal markets that may be more effective than inefficient external markets. The second rationale relates to resource-based perspective that focuses on a firm's internal resources and capabilities. This perspective suggests that the ability of emerging economy firms to get access to advanced foreign technological capabilities and maintain contacts linking national resources with foreign capabilities constitute in itself a capability (Koch and Guillén 2001). As contact capabilities are generic in nature and not product specific, and because building contacts require sufficient time and resources, firms would like to leverage them across diverse product–market combinations (Luo and Chung 2005).

By contrast, diversification also has several disadvantages. The political view opines that diversification can be lowering the performance of firms as it can result in diversified firms receiving favorable treatment, including bail out, from the government (Ghemawat and Khanna 1998). Further, diversity can increase the cost of management, coordination, and efficient resource allocation.

However, all these perspectives suffer from *context insensitivity* (Chakrabarti et al. 2007). Priem and Butler (2001) argue that it is the level of institutional development that establishes the applicable value of the intra-firm resources that each firm possesses. Consequently, as the institutions mature in an emerging economy, the competitive value of a firm's resources may also change.

Institutional Reforms and Diversification–Performance Relationship

While business groups are expected to thrive by internalizing external market functions in contexts that abound with market failures, these opportunities are typically expected to fade with the emergence of free-market mechanisms that allow for arms-length business transactions. Thus, when countries enact economic reforms or adopt policies which enable the creation of institutional mechanisms such as a relatively free import/export regime that allows access to raw materials on one side and access to foreign markets on the other, or a capital market network that allows efficient access to risk capital both domestically and globally, many of the internalization advantages of business group structures diminish. Viewed through a resource-based perspective, it can be argued that in later stages of transitions, business groups are more likely to find themselves in an environment that favors rule-based, impersonal exchange with third-party enforcement of contracts (Peng 2003). Institutional reform is invariably targeted at removing the typical sources of transactional friction such as import/export controls, capital controls, and labor market controls, fostering a move away from a relationships-based transactional environment to one that is more rules-based.

In coping with the institutional change, successful business groups coalesce around a formal unified command and control structure through cross-shareholdings, board interlocks and strict cooperation across group affiliates (Peng 2003). In the case of India, Khanna and Palepu (1999) found that business groups strengthened their network-based control over subsidiaries in the later stages of institutional transition. The second strategic response is to restructure the business groups based on competitive advantage and market-based capabilities. As market-based competition becomes stronger, unrelated diversified business groups would be less prepared to compete with specialized firms or foreign entrants (Ramaswamy et al. 2017).

A developed institutional context refers to an environment's capacity to provide exogenous support for sustained firm performance (Goll and Rasheed 1997). Specifically, a munificent environment has high levels of demand in product markets and resource abundance with slack and capacity to support growth (Lim et al. 2009). However, limited, previous studies have also documented the advantages of diversified firms in munificent environments. Colpan and Hikino (2005) and Colpan (2008) find that during the prosperous 1980s in the Japanese textile industry, firms that based their diversification on generic financial and marketing resources had better performances. Miller and Shamsie (1996) used a resource-based orientation in examining the performance of seven major Hollywood film studios over thirty years that began with a period of munificence but turned into one of scarcity. They find that control over generic resources was associated with higher levels of studio performance during the period of stability.

In a scarce environment, on the contrary, as consumers' income gets squeezed, consumers become price sensitive, which results in a sales volume decline. Sales decline results in low performance for firms operating in such environments. Although both diversified and focused firms would suffer performance decline during macroeconomic scarcity, we argue that such an environment would additionally reduce diversified firms' performance because a scarce environment (1) reduces the internal market benefits from diversification and (2) increases management and organizational costs for diversified firms (Chakrabarti et al. 2007). The privileged access to resources and internal transfers that diversified firms enjoy during periods of munificence provides relatively fewer benefits during periods of economy-wide scarcity. When many or all of a diversified firm's markets are affected by scarcity, the firm will not be able to shift resources from strong to weak businesses. Businesses that were viable because of resource transfers will suffer in their absence or reduction. Focused firms would have lesser performance decline as they are not afflicted with these two additional problems.

The problems associated with diversified firms in scarce macroeconomic environments have also been noted by previous research. Colpan (2008) and Colpan and Hikino (2005) find that a wider scope of diversification results in the development of generic resources that yield lower rents. In their study of the Japanese depression of the 1990s, Colpan and Hikino (2005) find that investments made in firm-specific technological resources and capabilities generated continuous profit flows. Lim et al. (2009) rationalize that during macroeconomic instability, management decisions involve intense information processing because unpredictability clouds the relationship between decisions and consequences. Under such fluid conditions, specific information is required, which the generic resources of diversified firms are unable to provide. Guillén (2000) notes that under scarce macroeconomic conditions, governments in emerging economies, such as those in Argentina, Venezuela, Brazil, and India, are likely to promote nationalist and populist policies such as import substitution, which results in a variety of bottlenecks that slow down the growth of new industries and thus "opportunities for diversification will be rare" (Guillén 2000: 368).

To summarize, an environment characterized by scarcity not only reduces the benefits of diversification but also increases the cost of diversification. Further, the generic resources that diversified firms have developed are also ineffective in such an environment. Collectively, the fall in benefits and the rise in costs of diversification imply that exposure to widespread adverse changes in their environment will cause highly diversified firms to suffer greater performance declines.

Proposition 1a.: Highly diversified firms would be related to superior performance during munificent macroeconomic environment.

Proposition 1b.: Highly diversified firms will suffer greater decline in its performance during a scarce macroeconomic environment.

The Impact of Business Group Affiliation on Firm Performance

Group affiliation might have an effect that is independent of the business group diversification. As explained before, previous literature has tried to qualify business groups as conglomerates, which necessarily may not be true. The extant of diversification could vary across business groups with some choosing relatively lower levels compared to others. Having established the rationale for examining the independent effects of group affiliation on performance, we argue that "groups confer performance benefits upon member firms by dampening the negative effects of diversification" during periods of macroeconomic scarcity. In contrast to focused firms, business groups' reliance on informal social ties and networks causes member firms to enjoy superior access to external resources during macroeconomic conditions of scarcity. "Given their reliance on informal social ties, and family ownership, some of the bureaucratic coordination costs and the need to articulate complex control mechanisms can be minimized in business groups" (Ramaswamy et al. 2012, p. 646). Thus, unlike focused firms, business groups are well positioned to minimize the dampening effects of scarcity in the macro-environment. Also compared to a focused firm, business groups have multiple competencies at their disposal as they have to branch out in multiple industries that require development of different skill sets. Business groups have well-developed labor markets with varied skills that can be utilized during scarce macroeconomic conditions. For example, Aditya Birla group, one of India's largest business groups, has invested significantly in training a cadre of business managers internally through an in-house program called the Birla Management Company. This talent development function allowed the group to overcome talent management shortages within its empire without recourse to external markets.

The Moderating Effect of Business Group Affiliation on the Diversification–Performance Relationship

Although a scarce macroeconomic environment reduces the benefits of diversification, business groups confer performance benefits on their member firms, thus ameliorating the negative consequences of diversification. As opposed to unaffiliated diversified firms, business groups are able to leverage a range of capabilities that reduces the negative consequences of diversification. For example, given a business group's reliance on informal ties and family ownership, the bureaucratic coordination conditions needed to manage a diversified firm are minimized in business groups (Guillén 2000). The uncertainty associated with a scarce macro-environment results in unpredictability, which clouds the relationship between decisions and consequences (Lim et al. 2009). Under such fluid conditions, decision-making involves intense information processing, which requires multi-skilled labor pools. The in-house talent pool of business groups that have multiple competencies is able to link isolated pools of knowledge across multiple networks to make better decisions. Unaffiliated diversified firms are unable to develop such varied capabilities and are thus unable to withstand the effects of a scarce environment. Finally, research on India indicates that Indian business groups have restructured their portfolios by divesting unrelated businesses and strengthening their core businesses (Chari and David 2012). They are therefore better equipped than unaffiliated firms to confront the challenge of macroeconomic shifts.

Proposition 2: Business group affiliation positively moderates the diversification–performance relationship during a scarce macroeconomic environment.

Discussion and Conclusions

Product Diversification

There are a large number of studies of diversification and performance in developed countries which makes synthesis very difficult. Without a clear synthesis of the existing studies, the effect of diversification on firm performance cannot be answered. This is further complicated as most of these studies are context insensitive. In this paper, we look into previous research of diversification and firm performance in the context of emerging economies, especially when the broad macroeconomic conditions change.

The outcomes of diversification are influenced by macroeconomic conditions. Diversification does not alleviate the impact of scarce macroeconomic conditions on firm performance. Environment-led prosperity, including a rapidly growing economy and strong domestic demand without volatile price fluctuations, contributed to sound profitability in the munificent economy. This macroeconomic prosperity may have masked the inefficient product diversification of some of the enterprises (Colpan 2008). As long as a firm had situated itself in a growing market, temporal demand factors lifted profitability. This result has wider implications in the diversification–performance literature, particularly in emerging markets.

Business Group Affiliation and Their Moderating Effects

Contrary to the previous (diversification) relationship, the performance effects of business group affiliation are not found to be contingent on macroeconomic environments. Affiliated firms perform better than unaffiliated firms in both munificent and scarce environments. Further, business group affiliation positively moderates the negative diversification–performance relationship during times of macroeconomic scarcity. The advantages of business group affiliation as a response to market failures (Khanna and Palepu 1997), such as the superior allocation of resources (Guillén 2000) and the benefits of social networks, outweigh the costs of affiliation, such as negative reputation effects and cross-subsidization, even in times of economic scarcity. Under a scarce macroeconomic and unstable environment, transactions in goods and services would be subject to information asymmetries (Arrow 1971), which result in costly transactions (Kogut and Zander 1993). Further, firms are likely to have fewer financial resources or may lack experience to operate in such harsh conditions (Tsang and Yip 2007). Affiliated firms may thus rely on networks and relationship-based organizational structures, of which business groups are a part, to overcome the problems of scarce macroeconomic conditions.

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Chapter 28
Applying Porter's Five Force Framework in Emerging Markets—Issues and Recommendations

Indrajit Mukherjee

Abstract Porter's five force framework is a very popular tool for analyzing the competitive environment of an industry. However, it has implicitly assumed the context of the developed market. There has been some criticism that these assumptions might not be tenable in the institutional environment prevailing in the emerging markets. However, little has been done to adapt it for such contexts. Only one paper (Narayanan and Fahey, J Manag Stud 42:207–223, 2005) has pinpointed some contextual differences between emerging and developed market and have indicated that the framework is not valid. I, however, argue that such contextual differences will lead to a different outcome, and if practitioners incorporate the differences in their analysis, they might still make quite accurate inferences. So extending the above mentioned work, I explore some links between institutional characteristics of emerging markets (which contrasts with that of developed market), and the competitive forces. Some of the links identified might be visible only to practitioners who have deep insights in the industry. Others might be easily identified by industry outsiders. It is a call to practitioners and academicians, to develop deep insights of the industry before applying the Porter's five force framework in emerging markets. The links identified might not be applicable to all emerging markets, or even all industries in a given country. The judgment of managers or academic instructor would play an important role relating the paper in industry. I expect this will help practitioners of emerging markets to use the framework more accurately by avoiding biases from overlooking institutional context of emerging markets.

Introduction

Emerging markets are economies which are behind the developed economies in terms of industrialization but are growing rapidly and has adopted the policy of economic liberalization to move towards a free market economy. While these

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A. Adhikari (ed.), *Strategic Marketing Issues in Emerging Markets*,
https://doi.org/10.1007/978-981-10-6505-7_28

economies provide a huge revenue generating potential for foreign MNCs, the environmental context is very different from those of developed economies. This requires the firms to rethink about the marketing frameworks used in developed markets and adapt them (Arnold and Quelch 1998).

Porter's five force framework is a very important tool for analyzing the competitive environment of an industry. It presents a set of five forces which shape the competition of an industry: rivalry among the incumbent firms, threat of new entrant, threat of substitutes, bargaining power of buyers and bargaining power of suppliers. The attractiveness of the industry in terms of profit potential depends on the combined effect of all the five forces taken together (Porter 1979, 1980). It helps in making decisions about whether to enter a market or not, and how to cope with competition if the company has decided to enter or already entered.

There has been criticism of Porter's "US way of looking at the world (Rugman and Verbeke 1993), and contradiction of the role of government as described by Porter and the empirical observations of emerging markets (Grant 1991). These criticisms indicate the need to probe into the applicability of the framework in emerging markets, more so because many theoretical models which have been developed and successfully used in the developed economies have limited applicability in the emerging market due to significant differences in the institutional contexts (Hoskisson et al. 2000; Wright et al. 2005). Unfortunately, little has been done on Porter's five force framework.

Narayanan and Fahey (2005) concluded that contextual differences, between emerging and developed market, defined by transaction cost, capital flow and laws governing rivalry is so different that Porter's five force framework is not valid in the former context. Porter (2008) came out with an updated version of Porter (1979) where the same framework was presented with many more nuanced explanations which addressed some of the earlier criticism which were general in nature (applicable in developed market). It had no mention of effect of institutional environment of emerging economies on the framework.

I faced a number of problems while applying the framework in practice. Later, as a doctoral candidate, I came to recognize the difference between in the institutional contexts between developed and emerging markets. Subsequently, as an instructor of strategic management in an Indian business school, I found students struggling to apply the model in teaching cases as well as their own job context. I identified one of the sources of the problem is the applicability of the framework in the Indian business context—which is significantly different from context of USA or other developed countries. In this paper I focus on the institutional characteristics of emerging markets in general (beyond India).

Narayanan and Fahey (2005) argued that Porter's five force framework is not valid in emerging economy institutional context. I, however, argue that the framework is not invalid per se, but needs to be adapted. Otherwise, practitioners might make biased inference. If they are sensitized about the differences and how they influence the different elements of the five forces, they might be able to make more accurate inference. Narayanan and Fahey (2005) came out with theoretical insight on the institutional differences relevant to the five forces, but stopped short of relating the effect of the differences on the different forces. Building on the same, I take the discussion a step forward to relate these differences with the different elements of the five forces (as applicable) and how they will be modified. I expect this will help manager make more accurate decisions. Members of academia who teach the framework in emerging economies would also be able to guide better.

I attempt to link between institutional characteristics of emerging markets, which are different from developed markets, with the five forces. I assume that the readers are aware of Porter's five force framework which is available in many text book covering strategic marketing and competitive strategy text books, and scholarly literature (ref. Porter 1979, 1980, 1985, 2008). In the limited space an elaborate exposition on the institutional context of emerging economies is not possible. So only the relevant characteristics are presented in the next section. The third section present the arguments linking the relevant characteristics of the institutional environment to the different forces. I end the chapter with "Discussion and Limitation".

Institutional Environment of Emerging Market

Studies have indicated that institutional environment of emerging markets differs vastly from those of developed markets. However, with institutional reforms, the differences tend to taper over time, leading to increasing munificence of environment, availability of resources, access to international markets, infrastructure, institutional support, and diminishing regulatory interferences. The transition may take a number of decades to complete (Khanna and Palepu 1997). In the meantime business and entrepreneurial activities and firm strategies are impeded by or redirected towards overcoming of the scarcity of resources and deficiencies of regulatory environment, legal and political institutions (Peng 2001). The underdeveloped and therefore inefficient market institutions may also result in non-productive or wealth destroying methods being adopted by incumbents (Sobel 2008). Some of the characteristics of the institutional environment, relevant for the paper is presented below.

Environmental Turbulence

Economic liberalization involves simultaneous deregulation of a number of industries along with 'a number of economy wide policy and administrative reforms, cutting across sectors such as trade, banking, and commerce, capital and labor market' (Ray 2003). In such a rapidly changing environment the market conditions are in a state of flux (Makhija 2003). The simultaneous changes in multiple industries, many of which are related to each other, results is a very complex pattern of change and takes many years to reach equilibrium, if at all. Opening of borders also result in greater exposure to the culture and society of different countries including the developed ones. This increases aspiration of people and changes the nature of demand of consumers. In comparison to the above, changes in industry structure in developed economies are primarily driven by technology and regulatory changes which are simpler in nature.

Regulatory Deficiency

In emerging markets regulation related to competition are often weak or implemented ineffectively due to weaknesses in supporting institutions like legal and administration. For example Competition Commission of India is described as "toothless" by many professionals. In "The Competition Act, 2002" predatory pricing is considered an abuse, but what exactly in predatory is not defined. From September 05, 2016 a new Indian telecom company started offering free services till December 31, 2016. Subsequently the free scheme was extended up to 31 March 2017. In spite of protests of predatory pricing by rivals the commission was inactive. In the meantime there is a discussion of merger of two major players to counter the move. The total market share of the merged entity is expected to be 42%. Another major player is acquiring a small player. Both the predatory pricing and the merger leading to such high industry concentration, are anti-competitive but happening in spite of the existence of an anti-competition act.

Transactional Cost, Relational Contract and Social Network

Arm's length transaction or transaction with new stakeholders are susceptible to opportunistic behavior before or after the contract. In an attempt to avoid losses due to such opportunistic behavior firms have to incur costs for searching, negotiation and preparation of a contract; and thereafter monitoring to ensure proper fulfilment of the contract (Dahlman 1979). These costs do not add any value to the product or service and are incurred just to ensure a fair transaction. They together comprise the transaction cost. With developed market institutions the chances of opportunistic behavior in business is low. In emerging markets transaction costs are high due to deficient market institution (Khanna and Palepu 1997, 2000a, 2000b; Narayanan and Fahey 2005). To avoid the same relational contracts, based on trust, are very common (Wiliamson 1985). The combination of many such relationships form a network.

Relationships and network play an important role in firm strategies. Since these relationships can be leveraged for advantages in business transactions or simply reducing transaction cost, they are considered social capital for the business (Batjargal 2003; Hoskisson et al. 2000; Peng and Heath 1996; Peng and Luo 2000). During the institutional transition in emerging markets, firm strategies evolve gradually from "network-centered strategy" to "market-centered strategy". In network-centered strategy the interpersonal ties of managers and inter-organizational relationships of the firms are very important. In market-centered strategy the competitive resources and capabilities independent of their networks, relationships and connections are of prime importance (Peng 2003).

Resource Deficiency and Supply Constrained Environment

Growth of developed markets are demand constrained. This means that any new demand is fulfilled very fast by increasing the supply. This is enabled by resource munificent environment, low entry barriers due to strong regulatory bodies curbing anti-competitive strategies, and entrepreneurial ecosystem which rapidly addresses new preferences or demands. Growth of the economy therefore reflects the growth of demand. In contrast emerging markets have a rapidly growing demand, driven by high aspirations due to exposure to consumption pattern and life style of developed economy, newly learnt consumerism, and supported by increasing purchasing power. So the demand side does not pose much growth constraints.

Supply lags behind demand in emerging markets throughout the industrial value chain. Due to underdeveloped market institutions, the transaction costs (expenses which do not create value) are high. The corporate governance regime is also weak, suffering from lack of transparency, low financial and legal compliance. A significant proportion of the wealth, which is generated in unaccounted businesses (to avoid paying tax—commonly called black business) and corrupt transactions are parked in form of non-cash assets or hoarded cash, which remains idle. With underdeveloped capital market, cost of debt and non-performing assets are high. Entrepreneurial financing from angel investing and venture capital fund are rare. Due to technological backwardness resource consumption in production processes are higher compared to develop economies. All of the above causes of inefficiency results in resource side constraints. High entry barriers in industries due to regulatory weaknesses and weak entrepreneurial ecosystem poses hurdles towards easing out supply constraints. So supply falls short of demand and becomes the limiting factor to growth. For example, in 2010, even when India was going through a slowdown after the global meltdown, buyers of tier II cities had to wait for more than 2 months to get the supply of a popular models of cars.

Sometimes after easing out the supply constrains in terms of quantity the same continues with respect to quality. For example good pharmaceutical companies in developed economies usually carry out R&D and marketing, and outsource production. There is no dearth of firm which can produce the same. In contrast, in emerging markets like India, the ability to produce good quality product makes the pharmaceutical companies stand out. It is also well known that about 80% of engineers and management graduates in India are unemployable due to lack of sufficient professional knowledge. So while the education sectors has expanded rapidly and increased the supply in numbers, the quality of skill or knowledge is grossly below the requirement.

Effect of Emerging Economy Institution on Five Forces

In this section, the discussion related to bargaining power of buyers and suppliers are clubbed together as they practically mirror each other. The intensity of rivalry and threat of new entrants are presented as separate subsections. Threat of substitutes is not discussed as the driving factors of this threat is the price-performance ratio which is an outcome of technology. After the different forces are explored the issues related to change in industry structure, that is, the transient state of industries, is also explored.

Bargaining Power of Buyer and Supplier

It is explained that in contrast to developed economy which is demand constrained, emerging economies are supply constrained. This bestows *higher bargaining power to buyers in developed economies and suppliers in emerging economies*. This is reflected in an interview I had with the owner of one of the largest umbrella brand in India. He said, "I am not bothered at the loss of a few customers. As long as we supply a right quality of umbrella they will come back as they do not have much option. But I would be extremely concerned if I lose a good supplier. It take many years to develop a supplier who can supply good metallic parts….." In both the relationships above, umbrella manufacturer and consumer, and metal component supplier and umbrella manufacturer, the limited option of the buyer and therefore bargaining power of supplier is apparent. Scarcity of suppliers with right capability results in the same.

Intensity of Rivalry

In emerging markets, with supply constrained situation, unaddressed consumer needs and high rate of growth, it is easy to increase the pie. So the rivalry of sharing the pie remains low. Even if there are many incumbent companies or equally balanced ones the rivalry may not be high. Rivalry is further lowered by relational contracting acting as alliance. When the buyers are bound by their suppliers they experience a switching cost for changing suppliers. This reduces the ability of the buyers to play the suppliers against each other to obtain better price or other commercial terms and conditions. The intensity of rivalry reduces as a consequence.

Regulatory deficiencies also reduce intensity of rivalry. Incumbents can often build entry barrier with ease. They also use non-market methods of competition, like cartels for both supply and purchase, running business without paying tax, using social coercions, using political influence in business in lieu of funding political parties. Without considering the non-market methods of rivalry, applying Porter's model for understanding the intensity of rivalry might be very misleading.

Threat of New Entrants

The trust based relational contracts between buyers and suppliers take time to develop. As relationships grow, transaction cost reduces. Replacing a supplier or a buyer by a new one will increase transaction cost till relationship has developed with another. The interim increase in transaction cost is like an additional switching cost in emerging market, both from buyer and supplier. A new entrant has to overcome this barrier by *building relationship with both from buyers and suppliers*. Initially the entrant might have to offer the products and buy supplies at adverse terms and conditions, as the transacting parties are skeptical about the entrant being opportunistic and will safeguard their interests. Well-developed regulatory and legal system might have reduced the skepticism as they could have fallen back on the system in case of any default. Over time as trust builds the entrant will have a "level playing field". Building of trust adds a new element in the "threat from new entrant" which is relevant in emerging markets.

Economy of scale creates an entry barrier because new entrants do not have sufficient market share to utilize the high capacity. However, in the populous emerging markets like China and India, some industries have a very large market in terms of quantity, especially products which are consumed by masses. It might be *easy to reach minimum economy of scale* by capturing a small share of the market. In addition, if a new entrant is entrepreneurial, it might be able to cater to some parts of the market which has been lying under-addressed or unaddressed and scale up easily.

Capital pose a stronger entry barrier in emerging markets than in developed markets because of its relative scarcity and higher cost. Large businesses, and especially the large business group have access to capital to enter into industries which require large capital. Small and stand-alone firms are at a disadvantage (Chang and Hong 2000). Frequently entrepreneurial ventures cannot scale up fast for want of funds and perish.

New entrants can enter into a space where rivalry exist or where market needs are inadequately or not addressed (no or less rivalry). With the latter, the entrant finds the blue ocean where there is *no or little retaliation* (Kim and Mauborgne 2014). Such blue oceans are rarely available in developed economies, and if they develop they are usually filled quickly. But in emerging economies they exist due to supply constraints and weak entrepreneurial ecosystem. Lack of regulation or their implementation in emerging markets resulting in anti-competitive moves and non-market modes of competition, can also create entry barrier.

Change of Industry Structure

Porter warns against confusing between structural change in industry and changes due to business cycle. The latter are temporary and require only tactical adjustments. Industry structures are “relatively stable”, that is: “constantly undergoing modest adjustment—and occasionally it can change abruptly” (Porter 2008). This assumption of “relatively stable” phases, may not be very tenable in most industries in the emerging markets because of the rapid and complex changes (Makhija 2003). Decisions based on the long term industry structure is at best challenging and at worst irrelevant in most industries.

Discussion and Recommendation

The chapter attempts to adapt Porter’s five force framework to emerging markets. The final outcome of the deliberation is: (1) identification of a set of elements which do not exist or are very weak in developed markets, and (2) identification of a set of elements whose effect is different in emerging markets vis-à-vis developed markets. The first category includes relation-related switching cost, anti-competitive actions and non-market competition. The relational contracting, which is some ways is similar to a stable alliance, reduces the intensity of rivalry and poses a stiff entry barrier. The underdeveloped market institutions results in weak regulatory regime allowing anti-competitive actions and non-market competition. They reduce the rivalry and increase entry barrier. The second category includes higher bargaining power of suppliers and lower bargaining power of buyers, vis-à-vis developed economies, due to resource deficient environment and supply side constraints. Intensity of rivalry and entry barriers is lower due to the same reason. The entry barrier due to capital requirement is higher and that due to economies of scale and scope is lower in emerging markets vis-à-vis developed economy.

I expect the above deliberation will help practitioners of emerging markets to use the Porter’s five force framework in a more accurate manner by avoiding biases from leaving out the effects of emerging economies. Some of these factors like the relationship, social network, sources of transaction cost, might be invisible to those who do not have experience in the industry. Others like resource munificence, regulations, etc. might easily be observed. For practitioners, it is a clarion call for understanding these factors, especially the invisible ones, before using Porter’s framework in emerging industries. It is also expected to help instructors of strategic marketing and competitive strategy to overcome the typical inconsistencies and confusions arising out of deploying theory originating in developed markets in emerging markets. I am hopeful of this exploration triggering more academic research into this linkage.

The deliberation in the paper is broad in nature. However, each emerging market and each industry is unique in its own way. For example the argument on scale being less of an entry barrier in populated markets may not apply in many economies or might apply simply in contexts of high population density rather than high population size. Moreover as the institutions develop the emerging markets are expected to be closer to developed economy and the suggested adaptation of the five forces for emerging markets may become less and less necessary. Whether institutions of emerging economies will exactly converge with those of developed economies or they will reach something different, is very important question, which will determine to what extent the convergence will happen. This paper is only a first step and cannot address such nuances. So rest my case on the good sense of the practitioners and academicians in understanding the spirit of the arguments, than the letter.

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Chapter 29
Physical Marketplace or Virtual Marketplace: The Choice That Modern Businesses Need to Make

Smitha Umesh

Abstract Marketplace in India is a crucial element for businesses in order to sustain and maximise their profits. With extreme competition among the sellers and increase in the buying power of the consumers, it becomes of utmost importance to reinvent the wheel to sell their products. Physical marketplace being proven and tested for years now is challenged with the new era of virtual marketplace. Both have their pros ancient times but has and cons for both the sellers as well as the buyers, this chapter focuses comparing the two marketplaces—physical v/s virtual and the strategic intent for any business to choose what best suit them. It also discusses the need for many businesses to consider its place in both worlds in order to sustain their growth in the industry.

Introduction

Business is often compared with oasis in the desert. There is a nice, green and fertile patch right in the middle of an arid desert. Businesses too, look for such places that are called marketplaces. Marketplace concept has existed from ancient times but its definitions have evolved with generations. Marketplace is defined in simple words as an ecosystem in which buyers and sellers meet and transact with each other. The marketplace in recent times has evolved dramatically. This evolution can be attributed to surge in technological innovations in computing, networking and mobile technologies. With faster computing devices, handheld devices and mobile phones have become 'computers in hands' for everyone. With advances in networking technology and mobile data services, all these 'computers in hands' are now connected to each other, ready to make online purchases.

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A. Adhikari (ed.), *Strategic Marketing Issues in Emerging Markets*,
https://doi.org/10.1007/978-981-10-6505-7_29

With so many devices 'online' at all times, it is a natural transition for marketplace to move from a physical location to virtual location. This transition not just gives opportunities for seamless transactions but also poses challenges to modern marketers to maintain and grow their market share across various types of marketplaces.

In this report, we would discuss strategic shifts that many companies which were in physical marketplace had to take; to move to virtual marketplace to keep up with changing times and new entrants in the marketplace. We also bring in perspective to enable new business to make a choice about that marketplace where they want to carry out their business in efficient, sustainable and profitable way.

Physical Marketplace Behaviour

Physical or the real marketplace is the traditional marketplace (or the shops) where the seller would show up the rack space in their shops with various merchandise. Physical marketplace has its unique characteristics and behaviours. In physical marketplace, the **rack space** is of utmost significance. Since the shop 'real estate' is an important characteristic, merchandisers compete for **shelf space** that attracts maximum eyeballs for their products. The shelf space is limited and therefore the seller has to choose between various merchandises to allocate adequate shelf space to the premium merchandise.

Communication and promotion become difficult and expensive because the posters and standees have to be placed at appropriate location to be visible to a large number of prospective customers. And there is limited space in the store. The sale of merchandise is perhaps the only driver to understand which products have had maximum eyeballs. In recent times, there have been innovations to identify where the prospects have stood before buying and this gives **market researchers** the required information. However, it is not an accurate mechanism to get market research data.

The **buying experience** in the physical marketplace is far more **trustworthy** to the prospects. The prospects can **touch** the product, move it and **see** it from all the sides. The prospect can also ensure that the product that is chosen for the purchase is the same that will be delivered. There is **no scope of fraudulent** transaction. In certain cases like apparels, the product can also be tried by the prospect; various alternatives can be evaluated before making a purchase decision. 56% of the consumer's surveyed by Synchrony Financial, believe it is important to receive their purchases within 3 days (p. 10). This is the expectation of a buyer in developed nation (US) where the ecosystem of transactions is fairly robust. The expectation would be much more stringent in emerging economies, due to the need of faith.

Another characteristic of physical marketplace is arriving at **pricing and payments**. In the physical marketplace, the buyer and seller try to maximise their gains by participating in **negotiations**. While negotiating, they arrive at '**fair market**

price' of the good or services that are being exchanged. Once the fair market price is arrived, payments are often carried out in 'advance' and in cash. The payments mechanism in India is going through an evolution; however, most payments even today are carried out through bank notes (cash).

In the physical marketplace, the buyer is interacting with a '**real human being**' and therefore the behavioural attributes like trust builds up during the interaction. The confidence in the **after-sales** support is also evident, when the buyer and seller have regularly transacted in the past. This interaction results in developing faith and results in customer loyalty and repeat purchases. 59% of the consumers in the USA would schedule an in-store appointment with the sales associate. The basic driver is to have a face-to-face interaction with the sales representatives and ask questions that would help make the purchase decision.

Culmination of above characteristics of a physical marketplace results in a unique buying experience. An experience that is more 'real world', where the buyer sees the products, in some cases tries it out, makes purchases. And the seller has an opportunity to build a rapport with the buyer, communicate the true value proposition of the product and instil confidence and faith in the buyer to ensure loyalty.

Virtual Marketplace Behaviour

Virtual marketplace is starkly different from the physical marketplace. The virtual marketplace primarily **sells** ***comfort*** and ***speed.*** Everything else is actually a by-product that it sells. Most virtual market seller promotes *comfort* and *speed* of delivery as their unique selling points. We shall objectively compare the attributes of the virtual marketplace to that of physical.

Since the virtual marketplace does not have 'real estate' issues, there is no concept of limited shelf space. The merchandise can be virtually stacked on an ***infinite shelf space*** that the buyer would keep scrolling. There is still a 'top of the search' concept identical to getting the 'best shelf space'. When a buyer is searching for a product, the virtual marketplace search engines would result in 'sponsored seller' on the top of the list.

Another advantage that the virtual marketplace has over the physical one is that in case of virtual marketplace the product that interests the buyer can be tracked easily by means of technologies like cookies and eyeball tracking. These technologies help the merchandiser identify which product interested the prospects but did not result in a sale.

Promotion in virtual marketplace is similar to that of physical marketplace, with promotion material to be available either on the seller's Web pages (shops) or other Web pages (similar to hoardings and banners). In addition to traditionally comparable promotion tools, the virtual marketplace has innovative tools for promotion like sending emails to registered IDs, ads on apps and ads on YouTube. Since the prospects are carrying the communication devices with them all the time, the reach of the promotion in terms of time is very high. An example could be, when the prospects is browsing a travel booking portal and looking for options, an SMS on her mobile with discount coupon can increase the likelihood of purchase to a large extent.

The buying experience on virtual marketplace is highlighted by convenience and speed. The convenience of carrying out a purchase sitting on a couch is what is about the virtual marketplace. Also, the convenience of ordering goods and getting them delivered to your house, frees up the time for other more valuable activities for the prospects. This is the primary driver for fuelling the surge in growth of virtual marketplaces.

However, the buying experience misses out on the trust built based upon interaction with the 'real human being'. It also misses out on arriving at the price, since there is no opportunity to negotiate. Any difference in pricing is attributed to services of convenience and delivery. The prices are comparatively lower, since building and operating virtual marketplaces require low capital and operational expenditures as compared to running a physical marketplace.

The buying experiences also miss out upon the fact that in physical marketplace the prospect can try out few products before making a decision to purchase. This is experiential marketing. The virtual marketplace is presently evolving to include the experiences for the prospect, for example, Lenskart allowing selection of frames for eyeglasses.

Payments in the virtual marketplace are largely in digital or electronic form. The digital payments made through various platforms like Debit/Credit/net banking and e-wallets ensure immediate money receipt for these marketplaces. However, most of these online marketplaces are aggregators and the actual sellers are dispersed around the country for servicing the orders. The payment received is instantaneously received by the aggregator but is transmitted to the seller only after the quality of service is ascertained.

Virtual marketplace also misses out trust and faith on after-sales services. Although a lot of e-tailers are working hard on services like 'free returns', but it is still inadequate to build the faith in larger masses to mobilise them to start online purchases.

Therefore, if we culminate the various characteristics, the virtual marketplace is a *convenient* and *effortless* mode of making purchases which has its flip sides of not getting to try out the product.

Physical Versus Virtual: Competing for Market Share and Mindshare

When the virtual marketplace came into existence, it did not create much flutter initially and the physical marketplace did not feel any threatened from this growing virtual space. But since the virtual marketplace was on technology engine, the transition from just another channel of selling to a strong alternative to physical selling happened rapidly; almost as quickly as overnight. In the recent times, both these marketplaces have come to loggerheads to gain into each other market share and mindshare. Initially, it was assumed that the virtual marketplace was only for *technology savvy, metro residents* who lived a fast life and demanded convenience of ordering from their cosy offices or homes.

However, since operational expenses are low, the price of goods on virtual marketplace is so low that it got aligned to the most important characteristic of an Indian (or any emerging market) buyer. An Indian buyer, to whichever segment it belongs, will exhibit high price sensitivity and look for value buying. With prices on virtual marketplaces being low, the value-seeking Indian customer across segment started migrating to making purchases online.

This rapid migration is also fuelled with penetration of smartphones into tier 1, tier 2, semi-urban and rural geographies. The virtual marketplace aggregators are providing last mile services to many locations in these areas and therefore the market share of virtual marketplace has been increasing dramatically.

Apart from the market share, the mindshare has also increased rapidly. This is evident from the fact that certain products like mobile phones are sold in much higher numbers in the virtual marketplaces than in physical marketplace.

Let us compare the situation with developed nations (USA for instance). The country is sparsely populated in its countryside, with only a few brick and mortar stores that are serving the day to day needs. For high-end purchases like electronics, the prospects depend upon virtual marketplace. The driver for them is availability of wide range of choices online. Alternately, the other section is urban consumers that are living a fast life and look up to virtual marketplace for their day to day needs. For high-end purchases, which are more often a brand, they visit the flagship stores.

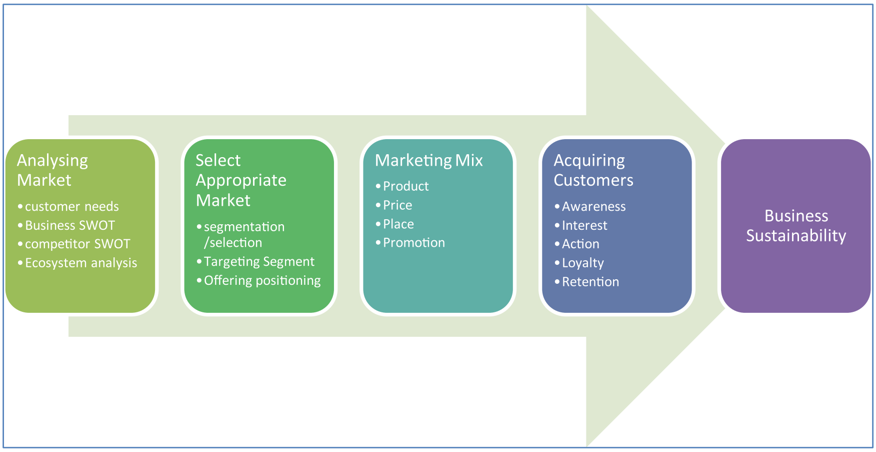
The situation is different in emerging markets (categorically in India). In the rural markets, there is hardly any presence of virtual marketplace, and most purchases are done in brick and mortar stores. In urban geographies too, the brick and mortar stores find more buyers than online space, due to lack of transition to digital payments and other factors discussed above.

Strategic Intent for Sustainable Revenue Growth

The intent of any company is to make strategic decisions to ensure that it experiences sustainable growth. The decision for sustainable growth is taken within the constraints of ever-changing ecosystem around the businesses.

One such drastic change was experienced with rapid rise of virtual marketplaces. There were leading brands, stores that demanded customer loyalty in physical marketplace (like DMart, Big bazaar). A lot of them continue to command this loyalty because of frequent *sale days* but few other have lost their leadership to the competitors who existed on virtual marketplace or have swiftly expanded their presence to virtual marketplace. Although the virtual marketplace is still in nascent stage (only about 10% of total retail sales done online in the US—Synchrony Financial pg 7), the trend shows that this is moving upwards rapidly.

So the key decision here is whether or not to move from physical to market in pursuit of expansion or looking for sustainable growth through increasing market share. Another decision is to identify for the virtual marketplace leaders, whether they need to have physical presence. For instance, Amazon surprised many by starting a flagship store in the USA. But experts believe flagship stores are strong marketing tool for businesses on virtual space. Many companies would have to align their strategies to this decision based upon the strategic marketing framework as shown below.



The framework explains how the companies should perform the market analysis and most companies in physical marketplaces would find that gap in their SWOT and competitor's SWOT analysis. They would also find that there is increasing customer need for convenience, speed of delivery, effortless buying and low prices. While selecting the target segment, the lines clearly demarcating the segments have blurred, therefore positioning becomes equally complex. The positioning of the product in physical and virtual marketplace needs to be consistent to the overall positioning strategy.

The marketing mix has undergone tremendous changes (most of which we have analysed in the previous sections). The company's existing in physical marketplaces will have to take efforts to modify its marketing mix to create a space in the virtual marketplace. Some companies would also have to transform their technology quotient, if they believed till date that it was not important for them to keep themselves abreast latest technology revolutions.

All these efforts are to achieve sustainable growth in revenue, market share and earnings.

Existence in Both Physical and Virtual World by a Business

It is evident now that for most businesses, it is important to have presence in both physical and virtual marketplace and more so true in growing and diverse market like India. Companies should therefore look for answers to questions like 'How should the brick and mortar companies should transition themselves to selling online?' and 'What are the challenges they would face for such transition?' When a seller from physical marketing is planning to move to selling online, it is actually adding a sales channel. When adding a sales channel, there are some roadblocks that they are bound to face. This section highlights a few, although the list is not exhaustive.

1. **Inventory tracking and allocation in multiple channels**: Multi-channel stock management is by far the most serious problem that the existing physical marketplace sellers would encounter. Understanding the channel consumption and getting the right amount of inventory being pushed through the optimal channel is a difficult task. Being involved in traditional way of inventory calculations, the companies do not have the expertise to understand the virtual market and the rate of flow of inventory. Companies need to take help of specialists in online selling, to address these issues during expansion/migration phase.
2. **Arriving at channel profits and understanding profitability of various channels**. This is yet another tricky situation that the companies would face. There may be some products which would sell at favourable price online, and other that would sell at favourable price in the physical stores. It becomes difficult for the merchandiser to find out the right combination of products being sold on physical and virtual marketplace, in order to maximise the profit. The profitability of either channel is different for different set of products. Arriving to channel profits and profitability is therefore a herculean task. The subject matter experts in this domain may be of tremendous help to the companies planning a migration.
3. **Making a choice of listing on aggregators** (like Flipkart, Amazon), Hosting their own website or both. The company need to take this strategic call whether they want to create their virtual presence on aggregator sites or host their own online marketplace. For example, FabIndia would be facing this issue of whether to sell its merchandise on Myntra, Jabong or host their own online shopping space. Most of the times, if the merchandiser is a significant brand, they would go with the option of having presence at both. A smaller seller or even traders would add online presence by selling through aggregators.
4. **Devising the process of ordering and order fulfilment**. Once the company decides about being present in the virtual marketplace, it had to now design the entire process of ordering to payments to order fulfilment to returns. If the company is working to sell through the aggregators, this challenge is fairly negligible, since the process if proven and the infrastructure is in place. However, if the company is planning to host its own website, it would have to

bring on board skill set to develop the technology backbone. It would also need to have on board the domain experts who are specialists in online selling process.

5. **Building product catalogue; getting professional product photos**. The company is now close to being present in the virtual market. It would need to fill the gap that virtual market has, which is having a close look at the product, feeling or even trying the product. To address this, the company needs to build an excellent product catalogue. It could be even highly interactive, with the buyer actually feeling the 'real product' and even trying out in some cases. For this, company need to have professional photographs clicked and position the product in a manner that would bring the customer closer to the buying decision.
6. **Reverse showrooming**. This is an important challenge to the companies which are not selling products online. With online product pricing being extremely competitive, most prospects move to the showroom in order to check out how the product actual looks. They may even try out the product in the showroom. They would then move their purchase actions online. This is exactly the reverse of showrooming, which was a traditional phenomenon, where the buyers would visit websites and make their choices of product (technology based) and then walk into the physical store to execute the purchase decision.

Despite the challenges, the way forward is to move the business in the correct marketplace which maximises the profits and value delivery of the company. The strategy that any business needs to work upon is to identify, which marketplace would make most business sense at the stage it is in. For some businesses, in the early stage the virtual marketplace would provide enough impetus to the initial growth, and they would mature with adding stores in physical markets (like Amazon). For others, it could be other way round. The choice of marketplace is therefore an important decision that the business has to make for sustainable profitability.

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Part VII
Corporate Social Responsibility and Sustainability

Chapter 30
Sustainability Marketing and Its Outcomes: A Discussion in the Context of Emerging Markets

Bipul Kumar

Abstract This study explains the impact and role of sustainability marketing in the changing business scenario. It discusses and explores the link between sustainability marketing and brand equity leading to consumers' preference for the brand in the present era, which is governed by strict environmental regulations and greater societal expectations. The role of sustainable practices is also discussed in the context of channel relationship wherein it is emphasized that the sustainable practices undertaken by the firms would enhance the relationship with their channel partners with similar orientation. The study also discusses that sustainability fuels innovation in a firm. The sustainability marketing practices in a firm are expected to drive innovation since sustainability requires utilizing limited resources in an optimal manner. This study also considers the role of sustainability marketing in shaping the behaviour of consumers towards responsible consumption. It touches upon the potential role of social marketing to alter the behaviour of consumers resulting in responsible consumption. The study highlights some important outcomes of sustainability marketing, which have relevant implications for marketers in emerging markets.

Keywords Sustainability marketing · Channel relationship · Innovation Responsible consumption

Introduction

The world is witnessing ever-increasing scarcity of natural resources. The temperature of the planet Earth is rising and essential elements for livelihood like water and food are in scarcity. The demand for resources is increasing at tremendous pace with the growth in consumption rate due to voluminous rise in population. The marketers in the changing world order are grappling with new challenges which are

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A. Adhikari (ed.), *Strategic Marketing Issues in Emerging Markets*,
https://doi.org/10.1007/978-981-10-6505-7_30

compelling them to offer the products and services in a manner that is environment-friendly and sustainable in all aspects.

Over the years, marketers have worked in traditional fashion that was pivoted on selling more goods, fuelling consumption and striving for profit. Sustainability was not a point of concern for them as the fundamental practices and disciplines of marketing often overlooked it due to its less focus on the effect of marketing as a social institution of significant importance and impact (Gordon et al. 2011). Initially, product choices were based on functional and emotional criteria. But in the changing scenario, the global concern about utilization of resources in a responsible manner has started changing the landscape of marketing and the overall business processes. Now a third dimension, social responsibility factor is also playing a crucial role in defining the consumer choices (Kotler and Keller 2006). Any major change in the society poses challenging questions to the firms. The society is witnessing a great sway towards the environmental responsibility. This is the juncture which may define a fresh paradigm for the marketers. They need to connect their economic goals with that of social awareness and responsibility. Drucker (1958) also defined marketing as a process through which economy is integrated into society to serve human needs. The environmental resources are hard pressed in present era, and hence, everyone needs to think practically for the larger interest of the society and also for the future generations. The situation as of now is close to tight rope walking. The manufacturers, marketers, consumers and all stakeholders, who are part of the societal link, have to decide on adopting some radical changes before it is too late to act upon.

Although there is rising evidence of marketers acting in a way which is beneficial to firms as well as to other stakeholders, the overall impact of their successful marketing activities is also creating a lot of negative externalities (Fry and Polonsky 2004). Such situations have demanded review of marketing as a function so as to fine-tune it with changing landscape and induce in it the element of sustainability (van Dam and Apeldoorn 1996; Peattie and Peattie 2009). This new evolving paradigm necessitates making sustainability the central component of all marketing thought and practices (Gordon et al. 2011). It is evident from a survey that sustainability issues encompassing green and ethical issues have significant role on impacting consumers' choice of products and allied factors (Manget et al. 2009).

The biggest challenge being faced by marketers today is to bring the sustainability in entire value chain related to the product or services. It is not only imperative on the part of marketers but also on the consumers to keep the link of sustainability alive. Considering the consumers' side of sustainability, the important challenges are related to change in the behaviour of the consumers (Kumar 2012; Kumar et al. 2017). This significant issue is related to addressing the gap between the desire to change the behaviour and the actual behaviour of the consumer (McEachern et al. 2007). In order to minimize the habitual behaviour (Jackson 2005), the consumers are required to understand the overall cycle of production, consumption of the products by them and the disposal of the used products in a responsible manner so as to limit their impact on environment (Peattie and Collins 2009). This study also explores the role played by social marketing, which has a crucial role to play at this point since the concerns related to behaviour change can be addresses more effectively by adopting the practices of social marketing. The marketers have vital role to play at this juncture by balancing the fulcrum of sustainability cycle. At one end, they are required to infuse a sustainable lifestyle in the consumers by educating them and facilitating change in them through targeted behaviour change (Jackson 2005), and at other end, they need to intervene in their practices and induce the factor of sustainability in it (Verplanken and Wood 2006). As sustainability asks the firms to adopt some radical changes, the innovation may play a crucial role to change the landscape of doing the business by marketers. The managers are required to think about sustainable development in all the activities undertaken by them. They are required to undertake path-breaking alteration in production, planning, financial, marketing and all other practices in order to achieve the goal of sustainability (Kotler 2011). In the newly emerged scenario of requirement to choose among limited resources and negligible impact on environment owing to high environmental costs, marketers need to re-scrutinize their theories as well as practices. The firms are required to strike the balance between de-marketing of older concepts and adoption of newly emerging sustainability marketing concepts with a long-term view.

Based on relevant literature, this study explores the relationship between environmentally sustainable practices adopted by the firms as part of their marketing strategy and the resulting marketing outcomes. The study posits that the sustainability functions adopted by marketers result in consumers' preference for the brands offered by that firm. This paper also discusses that the firms with sustainable actions also improve their channel relationships. It is expected that the firms with emphasis on sustainable marketing practices would also look for channel partners who are aligned with similar goals and channel members with similar interests would foster a long-term and strengthened relationship. The paper also discusses the role of sustainability in inducing innovativeness in a firm. Since corporate sustainability integrates economic, social and environmental dimensions, its role gets more strengthened and important due to dimension of innovation added to it. Innovation induced in the business practices of a firm due to sustainability is of immense important since it addresses some critical issues like addressing the needs of new customer segments and markets (Hansen et al. 2009). Limited natural resources also compel the marketers to think beyond mere production and distribution of sustainable products and services. They are also required to educate the consumers in order to inculcate in them the importance of responsible consumption which is sustainable in nature. This study also discusses the role of sustainable marketing practices on consumption reduction behaviour. It is interesting to notice that the meaning of sustainable marketing is changing very fast in the rapidly evolving market place, and it is also impacting the marketers, consumers and all stakeholders in the society.

As per Jurgens and Haanæs (2011), world's population would be 30% greater in 2050 compared to present numbers and by 2025, countries like Brazil, China and India—who are drivers of the emerging market—are expected to account for majority of the world's growth. Emerging market countries are moving very fast on the path of development. Such fast paced development may come with certain degree of compromise with environment and society. Sustainability marketing represents a unique opportunity for the emerging markets since the sustainable practices are expected to save costs, enhance productivity, reduce negative externalities on environment, build reputation, improve governance and provide better resources management in all aspects (Nkamnebe 2011). The specific outcomes arrived at in this study are based on the relevant literature and the evidence based on practices at some major corporates in India and other emerging markets. This study ends with discussion and managerial implications along with the directions for future research.

Sustainability Marketing

Sustainability can be described as the long-term maintenance of systems according to environmental, economic and social considerations (Bonn and Fisher 2008). It contains the elements from economic, social and environmental settings (Smith and Sharicz 2011) and is the collaborative effort of different stakeholders, namely government, non-government organizational and business, which results in sustainability (Murray et al. 2010). The sustainability actors may be viewed as intertwined diverse groups comprising social activist's organizations sharing a common goal, policy and ideology (Hunt 2011). This common worldview (Bridges and Wilhelm 2008) shared by the diverse groups under this approach concerns futurity, equity and needs/wants (Hunt 2011), wherein futurity challenge calls for focusing not only on current generation but also on the future generation of customers. The equity challenge calls for fair distribution across nations so far as of the costs and benefits of economic development are concerned (Peattie 2001). The needs/wants challenge focuses on goods and services that meet the basic needs of poor nations instead of the wants of rich countries (Hunt 2011). Sustainability marketing focuses on the goal of creating sustainable development and a sustainable economy (Hunt 2011), which incorporates full environmental costs of production and consumption (Peattie 2001). Sustainability marketing is "marketing within, and supportive of, sustainable economic development" (Van Dam and Apeldoorn 1996).

Green Marketing as Precursor of Sustainability Marketing

Green marketing is described as an organized movement of concerned citizens and government to protect and enhance people's living environment (Kotler and Armstrong 2008). It also refers to the strategies to promote products by employing environmental claims either about their attributes or about the systems, policies and processes adopted by the firms that manufacture or sell the products (Prakash 2002). As per Grewal and Levy (2008), it is a strategic effort by firms to supply customers with environment-friendly merchandise. Green marketing includes the production, promotion and reclamation of environmentally sensitive products and packaging which can be recycled or reused. The concept of sustainability marketing embodies the issue of green marketing at its core. Different categories of green products include hybrid vehicles, organic foods, eco-friendly health and beauty products, compact fluorescent light bulbs, energy-efficient appliances, composters, solar-powered homes, eco-tourism and sustainable retail operations (Ottman 1998). It ties together different aspects of environmental sustainability issues such as life-cycle analysis of the products, material use, resource flow, eco-efficiency. Firms are motivated to pursue green marketing strategies in order to accrue economic benefits such as product differentiation, operational efficiencies, development of innovations, increased revenues and profits, higher market share, cost savings, enhanced corporate reputation and greater brand loyalty in the long term (Vaccaro and Cohn 2010).

Considering the consumers' aspect of green marketing, green consumerism is not only viable but it is a long-term trend reflecting a permanent shift in societal values (Ottman 1998). Decision on what products to make also relates to what resources to utilize in making and marketing those products, what processes to adopt and eventually what effect the wastage has on ecological costs in the form of pollution and damage to ecosystems (Fuller 1999). It is marketers' social responsibility to redirect needs and wants towards consumption, which are ecologically least harmful (Fuller 1999). The increased importance of green marketing has not only been focused on reducing environmental damage but also on striking a balance on social aspect of doing business leading to sustainability. Peattie (1995) also defined green marketing as "The holistic management process responsible for identifying, anticipating and satisfying the needs of customers and society, in a profitable and sustainable way". In view of this elaboration, it may be inferred that green marketing deals with developing and marketing products and services that are sustainable in nature and hence sustainability lies at the core of it.

Outcomes of Sustainability Marketing

Enhancement in Brand Equity and Resulting Consumer Preference

Keller (1993) defined brand equity as the "differential effect of brand knowledge on consumer response to the marketing of the brand". Park and Srinivasan (1994) defined brand equity as "the added value endowed by the brand to the product as perceived by a consumer". It is apparent from theses definitions that brand equity adds a factor of attractiveness to the product or services by enhancing their value. The sustainability efforts employed by marketers have the potential to appeal to environmentally conscious consumers and act as a factor of attractiveness for them.

Lassar et al. (1995) encompassed the elements like performance, perceived value, image, trustworthiness and a feeling of commitment in the definition of brand equity. It is pertinent to mention that the commitment of firms towards sustainability and infusing the same in their marketing efforts may result in fetching greater brand equity for them. Green marketing is considered as one of the pillars of sustainability, and green brand equity may be considered as one of the defining factors which might provide the edge to green brand compared to non-green brands. Green brand equity can be defined as “a set of brand assets and liabilities about green commitments and environmental concerns linked to a brand that enhance or detract from the value provided by a product or service” (Kang and Hur 2011). Brand preference may be regarded as the bias formed by consumers towards a particular brand (Chang and Liu 2009). Since the brand equity encompasses the preferences, attitudes, and purchase behaviour of customers for a brand (Yasin et al. 2007), green brand equity is expected to enhance the consumers’ brand preference and consumers’ purchase intentions (Myers 2003). Niininen et al. (2004) considered novelty as one of the reasons for selection decision by consumers in purchasing scenario. It is imperative to mention that the novelty factor brought by the marketers due to sustainable practices adopted by them has the potential to inspire the consumers to go for repeat purchase of the brands which follow the ethos of sustainability. Brand loyalty has been considered as one of the main drivers of brand equity by virtue of marketing advantages and outcomes related to brand equity leading to reduction in marketing costs (Aaker 1991; Park and Srinivasan 1994). It is worthwhile to mention that green brand equity results in brand loyalty (Kang and Hur 2011) and environmentally sustainable brands emanating due to green brand equity are expected to result into preference by consumers.

Godrej and Boyce, which is a major Indian firm making a variety of products for the consumers, derives a great degree of brand equity due to its sustainability practices. It accrues almost one-third of its revenues from products that are environmentally valuable and take care of critical social issues. The firm is known for its great brand equity and stable consumer base.[1]

Improved Channel Relationship

Sustainability may prove to be an important ingredient in maintaining channel relationship especially in the cases where sustainable development is also the goal of the channel partners. Distribution channel plays important role in marketing system since it not only adds value to products and services but also creates customer and shareholder value, brand equity and market presence for a company by using channel for the flow of goods and services from producers to consumers

[1]Source: http://www.sustainablebrands.com/news_and_views/leadership/emerging-markets-much-quicker-embrace-integrate-sustainability-business.

(Anderson et al. 1987). It also acts as inter-organizational network of institutions comprising of agents, wholesalers, distributors and retailers (Gorchels et al. 2004). The extant literature examining the behaviour of the channel members (Brown and Day 1981; Hunt and Nevin 1974) has focused on mutually exclusive relationship between channel members. This mutual exclusivity accounts for a good amount of sales at least in retail settings (Stern and El-Ansary 1982).

Looking at the channel relationship from the perspective of sustainability, a firm striving for sustainability in today's world prefers to choose those channel partners who value the concept of sustainability and practice the same. This is turning out to be more important owing to scope 2 and scope 3 emissions in the context of channel members who are business partner of the firms under focus (Kumar and Dholakia 2016). If the goal of any member in the channel is to be sustainable in its entire business processes, it would like to replace entire activities in the value chain by sustainable practices. In recent time, Unilever has been striving hard on sustainability issues and positioning itself as a firm with deep focus on sustainability since many of its partners are finding a perfect fit in it in a pursuit of their goal of sustainability. This very aspect of sustainable development has been fostering the relationship between such channel members. If the future returns are measured in terms of sustainability of the business, the channel members providing this edge would be valued most and channel relationship would get enhanced. As per Achrol et al. (1983), high environmental uncertainty leads to greater adoption of problem-solving capability and persuasion strategies for resolution of conflict among channel members. A channel relationship based on sustainability aspect is expected to dilute the uncertainty in the channel relationship and strengthen the trust of the channel members, thereby enhancing the relationship.

Innovation Capital

Sustainability fuels innovation. Innovation has widely been considered as a key element for the success of the business (Cooper 2001). A large body of literature links the new product development with product innovation (Hansen et al. 2009). Development of new products require significant innovation taking focus away from mere superficial changes by manipulating the elements of marketing mix so that the innovative product could encourage multiple use of the products, multi-user or shared-use products in product–service combinations (Mont 2004). As per Nidumolu et al. (2009), sustainability is a significant driver of organizational and technological innovations yielding bottom-line as well as top-line returns. The environment sustainability practices reduce the cost for the firms as in most of the cases the input cost is reduced. Sustainability is a fertile area that invigorates both product and packaging innovation. It creates the avenues for delivering new and innovative products with enhanced consumer benefits. Firms have started treating sustainability as innovation's new dimension since innovation has emerged as key to progress especially in the tough times (Nidumolu et al. 2009).

Taking the route of sustainability, firms think radically at this juncture where innovation plays a critical role. Application of sustainable practices leads to innovation which has its own importance from both moral and business perspectives (Salzmann et al. 2008). Sustainability in entirety creates a demand on innovation to be practically more significant from environmental and social point of view (Hansen et al. 2009). In fact, sustainability provides a new source of innovation and creates a competitive advantage for the firms. Sustainability marketing supports different forms of innovations a firm adopts and acts as a crucial tool for managing success in the firms (Hansen et al. 2009). Emerging markets are driving the innovativeness using sustainability at their core of doing business. Zambia is using a low-cost, low-technology sustainability-dependent approach to prevent cervical cancer using cell phone-based photography as diagnostic tool. Another African country Tanzania is riding high on innovativeness in the area of healthcare marketing using cell phone-based technology.[2]

Responsible Consumption

Fisk (1973) in his work "Theory of Responsible Consumption" discussed the potential of reduction in consumption. It was mainly about addressing the reduction in unnecessary consumption so as to display a responsible behaviour by consumers with the sustainability underlying at the core. The overall discussion is largely centred on the orientation of social marketing towards environmental, social and economic issues by taking into account the well-being of the society as well as keeping the value of the customers and marketers intact.

The role of social marketing relating it to the promotion of sustainability is well footed. As evident from the literature that is replete with examples such as recycling behaviour (Zikmund and Stanton 1971) and community-based sustainability efforts (McKenzie-Mohr and Smith 1999), social marketing has broadly addressed the issues related to sustainability. Social marketing utilizes tools, techniques and concepts derived from commercial marketing in pursuit of social goals (Andreasen 1995) and behaviour change. It was used in conjunction with marketing principles and techniques by Kotler and Zaltman (1971) to advance a social idea, cause or behaviour. It took past social communication as a policy approach to achieving social change by integrating concepts such as market research, product development and the provision of incentives into campaigns aimed at social change (Fox and Kotler 1980). Kotler et al. (2002) define social marketing as "the use of marketing principles and techniques to influence a target audience to voluntarily accept, reject, modify or abandon behaviour for the benefit of individuals, groups or society as a whole".

[2]Source: https://www.theguardian.com/sustainable-business/emerging-economies-lead-sustainable-innovation.

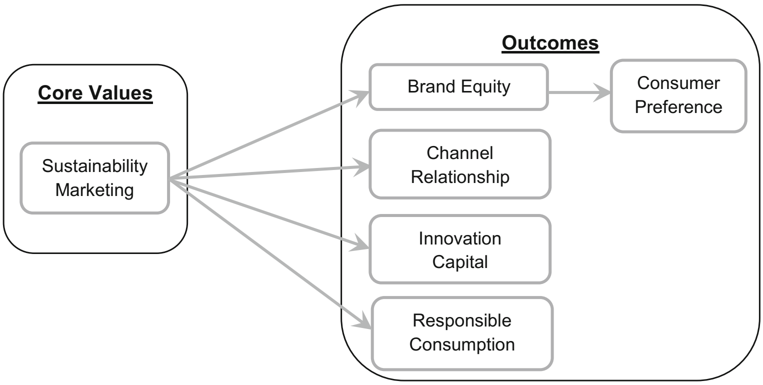
The role of social marketing on sustainability is well established, and it has considerable potential to contribute to responsible consumption. The sustainability aspect also looks for consumption pattern which is sustainable in itself. The issue of responsible consumption may be seen in the light of sustainability since the notion of responsible consumption is largely linked with the behavioural change. The social marketing focuses on change in behaviour; hence, it not only promotes the recycling per se of products, but it may also encourage usage of the products that must be recycled (Gilani and Sharif 2011). The marketing as a discipline has mostly focused on encouraging the increase in consumption. The service marketing, for example, caters to the increased consumption of intangibles, product marketing calls for increase in the consumption of the products and so on. The mere idea of responsible consumption linked with reduction in consumption in many cases would appear to people as contradictory to the concepts of classical marketing (Gilani and Sharif 2011). Even the discussion on green marketing does not talk about reducing the consumption; rather, it tries to persuade customers to buy more and more products, which are environmentally less harmful. In fact, the idea of responsible consumption through the application of social marketing requires a different set of marketing mix elements. The focus in social marketing is on a particular proposition instead of a particular product (Peattie and Peattie 2003). The social marketers wish to see a specific kind of adoption and maintenance of behaviour by consumer in the context of responsible consumption. The concept of price in social marketing context per say is more about the cost of behaviour change (Peattie and Peattie 2003). In long term, the price of responsible consumption leading to consumption reduction might lead to reversal of economic proliferation due to saving associated with it (Bloom and Novelli 1981). Communication is one of the most critical social marketing mix elements that also requires participation from the consumers as against one-way communication in the form of promotion in traditional marketing.

In view of the discussion, marketers need to adopt the practices of sustainability marketing by informing the consumers about the ill-effect of any consumption pattern which is not acceptable for the society. Sustainability marketing efforts inspire firms to educate consumers to accept, adopt and maintain a particular social behaviour and in turn promote responsible consumption which is in line with the sustainable lifestyle (Gilani and Sharif 2011). The responsible consumption would be considered achievable only when the members of the society adopt it as a way of life. Social marketers emphasize on adopting the fabrics of sustainability in order to promote more fruitful and satisfying lifestyle which emanates from responsible consumption (Peattie and Peattie 2009). There are many examples of firms in the emerging markets which are riding the wave of sustainability and showing paths to others. For example, Broad group, a producer of air chillers, utilizes waste heat from buildings to energize its air-conditioning units.[3] This sustainable way of doing

[3]Source: https://www.theguardian.com/sustainable-business/blog/emerging-markets-sustainability-leaders.

business also helps the consumers, even not connected to formal electrical grids, in moving ahead on the path of responsible consumption.

Conceptual Framework



Discussion

Emerging market economies have fuelled more than half of the world's growth in the last 15 years (Kumar and Bhaskar 2016). Sustainability has a great role in balancing the fulcrum of growth. The purpose of this paper is to understand the expanding role of sustainability marketing and its impact in the changing market scenario in the current world order. There has been differing views on the preference and purchase of environmentally sustainable products by various researchers. Kollmuss and Agyeman (2002) explored many frameworks and factors, which affect the behaviour of consumers and are pro-environmental in nature. They found conflicting and competing factors related to consumer's decision about such kind of products and failed to reach on consensus to explain the environmental inclination in the purchase of sustainable products (Pickett-Baker and Ozaki 2008). This study paves the path towards understanding the role played by sustainability marketing on various relevant outcomes. The concerns of the consumers towards environmental issues also compel the firms to alter and align their business practices accordingly which triggers basic notion of sustainability among firms (Kumar 2016). Firms' social and environmental initiatives are evaluated favourably by the customers, resulting in enhanced visibility and increased customer satisfaction ultimately developing and enhancing the brand equity (Chen 2010). This study argues the same and concludes with similar finding for the firms in developing countries. Channel relationship is driven by the members who share common goals, and if sustainability is the driving factor behind business process of a member, reciprocation by other members in similar manner is expected to strengthen the relationship. It is expected that inclination of the channel members towards sustainability would enhance the channel relationship.

It is important to note that some of the outcomes mentioned in the study are more valuable in developing countries. Based on the optimum utilization of resources guided by scarcity, the solution adopted by the firms in developing markets is unique. Although replicable in other countries as well, such solutions may find their true use and value in developing countries in more apt manner. For example, the way Tanzania is tackling a healthcare marketing issue in an innovative manner may not be well taken by the customers of a developed country.

Sustainability practices are instrumental in driving innovation in the firms. There is trend in the firms where environmental criteria are responsible to measure the innovation pipeline (Hansen et al. 2009). The increasing rules and regulations on environmental matters and pressure from government and non-government organizations have accelerated the views and actions of the firms towards innovation (Hockerts 2008). Hart (1997) also mentioned that sustainability presents a new source of ideas that lead to business opportunities. The present study also expects a positive relationship between sustainability and innovation. Researchers in the past have explored the consumption reduction (Peattie and Peattie 2009; Antil 1984) and sustainability (McKenzie-Mohr 2000; Hunt 2011). The current study also links the two concepts strengthening the earlier viewpoints. In the existing and changing scenario, it is expected that sustainability would lead to consumption reduction.

Managerial Implications and Direction for Future Research

This study broadly explores the impact and role of sustainability in the changing business scenario. It is important for the firms to understand and assimilate the sustainable actions, processes and products in their overall portfolio. The managers need to understand that in the competitive scenario, orientation towards sustainability would provide them the much needed edge over the competitors by providing them with innovative ideas. The innovation could translate into products and services which may be a better fit in the present world. This could result into suitability and preference for such products by consumers. It is also important to understand that sustainability has enhanced importance so far as channel relationship is concerned especially due to the way business is performed today. It is the reciprocation in the appropriate manner which strengthens the relationship in a channel scenario, and sustainability could be a common goal for channel members in the era of strict environmental regulations.

According to McKenzie-Mohr and Smith (1999), social marketing consists of uncovering barriers to behaviour, selecting appropriate behaviour to promote the ideas based on information, designing suitable program and finally evaluating it after implementation. The result of responsible consumption or consumption reduction through social marketing would motivate consumers to go beyond temporary behavioural change and maintain significantly permanent lifestyles and patterns of consumption, which is expected to be responsible in nature. The broad implication for marketers is to understand the importance of responsible consumption or non-purchase element of the consumer behaviour in order to provide them with the means of achieving satisfaction. The marketers also need to raise the environmental and social concern among the target consumer segment so as to encourage the reduction in consumption rather than using it as a medium of differentiation. Overall, sustainability marketing paves the sustainable way of creating value and the concept as a whole provides much needed tool of differentiation for marketers in the emerging markets which are leading the trajectory of growth in the resource constrained world.

The future studies may explore some other factors which warrant critical discussion such as country of origin effect in the context of sustainability. The future studies may also empirically test the suggested model to get more insights.

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Chapter 31
Corporate Social Responsibility and Corporate Image Resurrection: Cases of Mining Firms in Odisha

Sumita Sindhi, Mousumi Padhi and Upendra Kumar Maurya

Abstract Corporations are actively embracing corporate social responsibility (CSR) in response to expectations of customers, employees, society and other stakeholders. In many cases, CSR is used as a tool for enhancing the legitimacy of the business among its stakeholders and for the development of a positive corporate image (Morimoto et al. 2004). This paper looks at the use of CSR as mechanism for corporate image resurrection by two business houses in Odisha. The paper looks at the activities undertaken by the business houses to communicate a positive brand image among its stakeholders. Though the paper draws on the stakeholder theory of the instrumental and moral duty of businesses to meet stakeholder norms for desirable organizational behaviour, it goes beyond it to look at CSR as an image makeover and a brand-building exercise. The paper describes the case of two India-based mining corporations located in the state of Odisha which were in the eye of controversy and drew global criticism. The business houses soon realized the importance of corporate reputation and inherent benefits associated with it. The first step they took was to resurrect their image in the eyes of stakeholders through CSR activities. The focus of the cases is on this aspect of their activity. The cases have been analysed in the light of stakeholder approach.

Keywords CSR · Corporate image · Stakeholder

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A. Adhikari (ed.), *Strategic Marketing Issues in Emerging Markets*,
https://doi.org/10.1007/978-981-10-6505-7_31

Introduction

Corporate social responsibility (CSR) is evolving. It initiated voluntarily as a social responsibility of business, now encompassing social and environmental governance practices. In the process, CSR has excelled beyond basic requirements to gain competitive advantage through improved understanding of risks and opportunities. It progressively rationalized and became associated with broader organizational strategy and goals such as reputation and stakeholder management (Paul Lee 2008). Over the last decade, anti-globalization movements, shareholder activism and movement for corporate governance reform have increased public scrutiny of corporations (Maignan and Ferrell 2004) and their roles in society. An increased awareness and focus on the roles and responsibilities of a corporation consequently brings to light how it chooses to do its business, solely with financial objectives or in a responsible way that might affect the financial return, supporting other values. Not surprisingly therefore enterprises are increasingly making an effort to strengthen the social, economic and environmental components of their business, while simultaneously creating shareholder value. The literature on CSR argues that CSR positively affects the bottom-line performance of a corporation (Margolis and Walsh 2003; Orlitzky et al. 2003). The purpose of the paper is to illustrate how CSR is not just used to drive reputation and image in the market place but also used to resurrect a sullied image.

The introduction part of the paper is structured around how CSR activities have become a means towards achieving an end which becomes more important in the light of stakeholder activism. This section also highlights how CSR in emerging economies is unique and different from that in developed economy although this gets illustrated in the Nike example. The next section draws upon the literature to establish the link between CSR and corporate reputation before presenting a model which indicates how CSR can mean good business sense. The section on methodology indicates about identification and selection of cases. The example of Nike is chosen to illustrate how CSR was used for image resurrection in a developed economy context. This also illustrates that while the issues that get picked up for CSR may be different from one kind of economy to the other, the driving force for CSR may still remain same. The paper concludes by presenting an analysis of the cases and a model to illustrate how the various factors operate to drive value for the organization doing CSR.

In the globalized world and with increasing competition, it is becoming essential for organizations to differentiate themselves from others using new strategies. Managing the organization's image (reputation) has emerged as one of the prominent ways to achieve and sustain the desired differentiation. Organizations in modern times have realized the importance of reputation in not only accruing financial benefits but also achieving competitive distinction (Carroll 1979; Wood 1991; Logsdon and Wood 2002; Mahon 2002; Mahon and Wartick 2003; Brammer and Pavelin 2004). In recent years, companies as large and prominent as Arthur Andersen and Bridgestone learned hard lessons about how quickly a damaged reputation can harm employee and customer loyalty, threatening a company's financial well-being and even its viability (Argenti and Druckenmiller 2004). Though scholars have identified that creation of a strong reputation and image is a key enabler of success (or failure) of contemporary business, CSR has of late emerged as one of the vital factors in shaping corporate reputation (Worcester 2009). Though a strong favourable corporate reputation can enable better performance (Balmer 2009), stakeholders have increasingly become sceptical about organizations' motives for engaging in CSR (Vlachos et al. 2009). The lack of consensus leads to further investigation by researchers and practitioners to uncover the specific consequences and effects of CSR activities (Maignan and Ralston 2002).

Wally Olins, co-founder of the corporate-identity firm of Wolff Olins, explained, "brands of the future will have to signal something wholesome about the company behind the brand. The next big thing in brands is social responsibility" (The Economist 2001). CSR activities have become a means towards the end of achieving viability and sustainability, as it helps the organization to build, sustain and enhance their corporate image, which in turn helps the organization in attaining its goal of value creation.[1] Wheeler et al. (2003) argue that a business model that places value creation at its core will allow concepts of CSR, sustainability and the stakeholder approach to find their natural homes, at a strategic or a managerial level.

In emerging economies such as India, CSR is not only mandatory but envisioned with distinctive set of agendas and challenges which are different than developed countries. Jayakumar (2013) points out that MNC's view investment (FDI) in emerging economies with a view to gain cost advantages. CSR initiatives, used by MNCs as a key source to gain sustainable competitive advantage in developed countries, may get diluted in emerging economies. According to Visser et al. (2007), CSR practices seem to be less institutionalized in terms of the CSR benchmarks usually used in developed nations, such as CSR codes, standards, management systems and reports. This is apparent in the Nike case where reporting on CSR was started and an M-audit system was introduced. CSR activities by businesses in fact become an extension of social services that would be seen as government's responsibility in developed countries, for example investment in infrastructure, schools, hospitals and housing (Visser 2008). Nonetheless, corporate responsibility in emerging markets, while more extensive than commonly believed, is less embedded in corporate strategies, less pervasive and less politically rooted than in most high-income OECD countries. With globalization, developing countries are the most rapidly expanding economies and form a lucrative market for businesses. In this context, CSR is becoming pivotal in establishing societal acceptance, and hence, CSR is strategized to alleviate social and environmental

[1]Here, it is worth mentioning that a number of writers (Bernays 1977; Boorstin 1961; Boulding 1973; Budd 1969; Crissy 1971; Enis 1967; Gates and McDaniel 1972; Kennedy 1977; Martineau 1958; Schafhauser 1967 and later on, Abratt 1989; Alvesson 1998; Dichter 1985; Dowling 1986, 1993; Dutton et al. 1994) have defined corporate reputation as analogous to corporate image; hence, we have used the term corporate image and corporate reputation interchangeably.

impact of business. Companies like Hindustan Unilever (through Project Shakti) and Mahindra and Mahindra (e.g. Project Nanhi Kali) have been successfully integrating their CSR into business strategy, thereby establishing their reputation as responsible businesses which care for society.

From a stakeholder viewpoint, CSR could be seen as a support to earnest causes; however, it could be looked as a marketing practice aimed at creating more visibility instead of creating social impact (Luo and Bhattacharya 2006). Stakeholders wonder whether CSR is really noble or just another marketing ploy aimed at growing profits, though indirect. CSR is not an end in itself but a strategic tool to achieve the social impact while managing business. The balancing act between the twin objectives of CSR are very critical. Organizations may sometimes be more interested in projecting a good image rather than doing a good job in the name of CSR. That would be a reactive approach to do CSR. Proactive CSR is an opportunity to transform and work on all facets of the firm's value chain with the aim to reduce costs and increase customer value being protective to the environment, supportive to the customer communities, increasing the benefits for employees and other stakeholders on a sustainable basis. Hence, when combined and interlinked to business strategy it results in greater corporate reputation due to its sheer focus on sustainable value creation to stakeholders. Corporations also need to manage their identity proactively (through CSR) to establish a positive reputation with a firm's stakeholders. It translates into a propensity to purchase the firm's product or services, to work for the firm, to invest in the firm (Balmer 1995; van Riel 1995) or even collaborate or fund it. The linkage of CSR and reputation though well studied remains inconclusive (Arendt and Brettel 2010). Also, there has been dearth of studies on how CSR can resurrect corporate reputation. As discussed in previous sections CSR practices differ significantly in emerging economies (compared to developed economies), there have been calls for not only study of "CSR-image" linkage but an urgent need for further research on CSR (and related issues) in emerging economies at the international, regional, national and sectoral levels, as well as on theoretical constructs (Visser 2008). This paper aims to bridge the above gap. Paper makes significant contribution by empirically showing that strategic CSR can be used as a tool to not just build image but mitigate negative image of organizations. This aspect of image resurrection has largely been missing in the existing literature. The paper examines cases of two business houses in Odisha in their use of CSR as a strategy for image resurrection and brand-building. These are transnational companies (TNCs) globally recognized in the field of steel manufacturing. These organizations were defamed due to few untoward incidents and drew global criticism. This directly affected the financial bottom line of the businesses. The business houses soon realized the importance of reputation and inherent benefits associated with it. The first step they took was to resurrect their image in the eyes of stakeholders by strategizing CSR activities. The cases have been analysed with respect to CSR as a strategic tool in image building and in lieu stakeholder response towards organizations.

The paper also briefly discusses three cases of MNCs which have undergone similar denigration and how CSR salvaged company's reputation. Findings have also been reckoned with a case in developed country context. CSR is examined as a recouping mechanism for denigrated organizations.

Corporate Reputation and the Role of CSR

Many authors have studied corporate image with respect to various features of the organization and the beneficial effects of image building. The literature review gives fairly good idea of why a good reputation is important for organizations and the role of CSR in building and maintaining organizations reputation. CSR is a normative concept and is synergistic to stakeholder approach. Vaaland et al. (2008) define CSR as "management of stakeholder concern for responsible and irresponsible acts related to environmental, ethical and social phenomena in a way that creates corporate benefit". Linkage between CSR, stakeholders and corporate reputation is an example of "doing well by doing good".

Corporate Reputation and Stakeholder

Experts (Deephouse 2000; Fombrun 1996, 1998) argue that reputation is the most valuable asset of any firm which leads competitive advantage and needs protection. In fact, reputation acts as an information signal that provides valuable clues about an entity (Akerlof 1970). According to Cornell and Shapiro (1987), an organization with a good reputation has more potential to attract capital sources than their counterparts with bad reputation. Hence, Quedevo-Puente et al. (2007) argue that well-reputed organizations constantly have a privileged place in the market over organizations that have no reputation because the former has enjoyed the access to better resources in favourable terms. Positive reputations have often been linked to positive financial returns, with their value tied inherently to the inability of competitors to imitate the reputation. The value of a positive reputation is precisely because the development of a good reputation takes considerable time and depends on a firm making stable and consistent investments over time (Roberts and Dowling 2002).

There is an agreement among the authors (Wartick 1992; Fombrun 2002; Smidts et al. 2001) that reputation is based on multi-stakeholder expectations. Corporate reputation is the combined stakeholders' perception of a firm, which depends on the extent to which the expectations of those stakeholders have been met (Fombrun and Shanley 1990). This is in line with Waddock (2000), who argues that reputation is the organization's perceived capacity to meet the stakeholders' expectations. Stakeholders' reactions to CSR are most potent when image is central to corporate strategy. Fombrun et al. (2000) linked reputation to value by suggesting that reputational value is the outcome of convincing their stakeholders to have greater expectations. Conversely, reputational value is destroyed when stakeholders lose their confidence in the firm. Apart from stakeholders, reputational value pays off for the shareholders as well.

CSR as a Determinant of Corporate Reputation

Researchers have explored the linkage between CSR corporate image (also related concept of and corporate identity, company reputation) (Cornelius et al. 2007). Academics (Brammer and Pavelin 2004; Carroll 1979; Logsdon and Wood 2002; Mahon 2002; Mahon and Wartick 2003; Wood 1991; Schnietz and Epstein 2005) have argued that social responsibility is a key indicator used by organizations to build worthy reputation. McWilliams and Siegel (2001) pointed out that constructive CSR generates a reputation that an organization is dependable and honest. Likewise, Bhattacharya and Sen (2004) contend that CSR builds a reservoir of goodwill that organizations can draw upon in times of need. According to Siltaoja (2006), CSR issues have been among the major in shaping the reputation, and it is also associated with better financial performance (e.g. Burke and Logsdon 1996; Griffin and Mahon 1997; Carmeli and Cohen 2001; Orlitzky et al. 2003).

Organizations investing in CSR have long-term benefits, rather than short-term gains. Fombrun and Shanley (1990) reputation is built over a time period, and it gains stability and structure gradually, therefore stable components of reputation matter. Building on Chatman (1989) work of like attract like (similar values and norms), Siltaoja (2006) used value theory while linking CSR and reputation. Montgomery and Ramus (2003) conducted a preliminary study of the relative importance of reputation attributes for MBAs when deciding between organizations for which to work. The results demonstrate that a significant percentage of the MBAs in the sample were willing to forgo financial benefits in order to work for an organization with a better reputation for corporate social responsibility and ethics.

Siltaoja (2006) strengthen her argument of linking corporate reputation and CSR drawing upon the Schwartz's (1999) theory of cultural value. Quedevo-Puente et al. (2007) strengthen the link between CSR and reputation by claiming that CSR defines the past and corporate reputation defines the future. The linkage is cyclic; a decent performance over time leads to a favourable reputation as fulfilment of stakeholder expectations in the past leads to new future expectations, thereby retaining its reputation. Taking into account the above-cited authors, it can be generalized that CSR activities of an organization through its value creation lead to greater stakeholder admiration and employee satisfaction and attract value-laden employees. This in turn attracts socially responsible investors and hence the resources including capital. Thus, good reputation and positive image that are created benefit the organization in the long run.

Based on the literature, Fig. 31.1 comprehensively presents value creation through CSR and its tangible and intangible benefits. CSR strategically impacts stakeholders, which enhances corporate reputation. As reported in the literature, good corporate reputation attracts socially responsible investment (SRI).

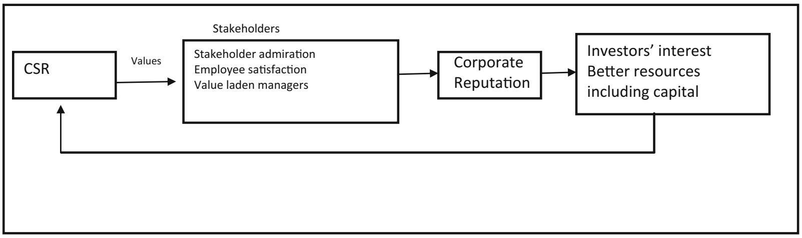

Fig. 31.1 CSR approach for value creation and reputation building

A relevant example of the above phenomenon is the oil giant Shell. Shell is generally regarded as a leading company in sustainable development policies. Interestingly, the origins of this reputation are seen by the company to lie in the reputational damage done by the Brent Spar issue and its association with event in Nigeria in the 1990s and the recognition that long-term business success is bound up with social well-being (Wade 2005). Shell identified increasing transparency as a means of meeting the declining trust in business, so its revised business principles, including commitment to human rights and sustainable development, were subjected to new governance regime. This included the application of standards that usually exceed legal minimums; a stakeholder approach to policy development, a management approach emphasizing engagement is the core means of achieving the vision, core purpose and business principles; and a culture of reporting (Moon 2007).

As with Shell company, the correlation between CSR, stakeholders and corporate reputation is evident through cases of two mining corporations in Odisha, discussed below.

Case Selection

Mining activities entail both social and environmental impairment. Developing regions with large mineral deposits posit a challenge in striking the right balance between exploiting the mineral resources for economic prosperity and safeguarding environmental stability and social welfare. The state of Odisha in India faces this challenge as it embarks upon a high growth programme with mining sector taking centre stage. Most of Odisha's mineral deposits are in forests that are inhabited by tribal populations and harbour rich biodiversity. The impact of mines upon natural ecosystems, biodiversity and tribal livelihoods has become a key concern and source of conflict. Therefore, the cases selected from the developing economy are from the more prominent and visible mining sector. In contrast, the case chosen from the developed economy context is that of Nike. But the logical underpinning of image resurrection remains put for all the organizations.

The issues of resettlement and employment for the local community are generating much heat in the present day. The concern for poverty and ecological degradation is deepening by the day blemishing the image of mining firms. While reports by the intelligentsia and economists extol the virtues of harnessing the mineral resources for the development of the state, civil societies and environmentalists deprecate the environmental degradation that has taken place. Odisha is one of the underdeveloped states with incidence of poverty in 2011–2012 at 32.6% as against an all India average of 21.8% with acute regional disparities (World Bank 2016). Therefore, the importance of investment-led growth cannot be neglected. But at the same time the interests and opinions of the relevant stakeholders can only be ignored at the expense of ignominy and bad business.

In order to resurrect their image, corporations are carrying out prolific CSR measures and it becomes evident from the two case studies of mining organizations, viz. Vedanta and Tata Steel in Odisha context.

Case 1: Tata Steel in Odisha

Tata Steel's association with Odisha goes back to 1904 when iron ore was discovered in the undivided state. Since then, steel-related industries have been functioning in some parts of Odisha, but we look at the specific case of Kalinganagar Steel Works Project at Duburi, Jajpur. On 17 November 2004, Tata Steel signed an MOU with Odisha Government for setting up a six million tonne greenfield integrated Steel Plant at Kalinganagar and the Government agreed to provide **3471.808 acres of land at Kalinganagar**, acquired in 1992, through IDCO (Orissa Industrial Development Corporation).[2] The problems though had just begun. Of the land acquired by IDCO, nearly half was private land and the rest government land. The entire land was being cultivated by tribals, many of whom had been doing it for generations; therefore, there was resistance by the people in giving up their lands. This resistance resulted in police firing in January 2006 which saw the killing of 13 tribals and one policeman.[3] This incident immediately attracted not just national but international attention; drew a lot of flak from the media, civil society and local people and sullied the image of Tata Steel even before they started operations. The incident added to fuelling the suspicion which was brewing in the minds of the local people. Suspicion leads to resentment, and resentment leads to resistance, and if Tata Steel had to acquire land and start building the project, it had to begin by allaying these suspicions. Tata Steels emphasis on resettlement and rehabilitation (R&R) policy, and its loud communication about its R&R activities was only the beginning.

[2] http://www.pucl.org/Topics/Dalit-tribal/2006/kalinganagar.htm. Accessed on 17 March 2017.

[3] http://www.pucl.org/Topics/Dalit-tribal/2006/kalinganagar.htm. Accessed on 17 March 2017.

Tata Steel as a Good Corporate Citizen

Tata Steel's CSR activities gained momentum and were strategically targeted to correct the damage. Various activities done as part of CSR are reflective of its desire to create goodwill among the local people and resurrect its image. Tata Steels "Tata Steel Parivar", its R&R programme, is highlighted in its various communications to the extent that it gets a dedicated space. Having faced resistance twice in the state, earlier in 1997 at Sindhigaon, Gopalpur, its CSR activities cover people not just directly affected by the setting up of the plant but also people in the periphery who could possibly resent Tata Steels operations. The Kalinganagar periphery development programme features prominently in its CSR activities, and it has taken various initiatives such as setting up the Gobarghati Hospital, mobile clinics, dispensaries, building and repair of schools, etc.[4] A commendable step in this direction has been the provision of employability, training and entrepreneurship development skills through CAP Foundation.

The crux here is that these activities are targeted not just for members of Tata Steel Parivar but also for the people of nearby villages. Through its community outreach programmes, it has taken key initiatives in the areas of health and hygiene, education, infrastructure, land and water management, sports, livelihood and capacity building. Much of the press releases in recent times have focused on its CSR activities. The press too has been eloquent in praising the good work of the company as reported in Economic Times, 18 June 2010; The Pioneer, 15 August 2010; The New Indian Express, Bhubaneswar, 29 April 2010. Slowly and carefully Tata Steel has managed to focus attention on all the developmental work in the Kalinganagar region while pushing attention away from the firing incident and gain the trust of the local people. It is also to be kept in mind that these activities have been designed as confidence-building measures to woo the tribal locals whose minds had been conditioned by civil activists to distrust any big business house and have been fairly successful.

All said and done the intentions of Tata Steel cannot be doubted. Tatas are known for their philanthropic activities, and motives of CSR are deep rooted in its philosophy of service to people. In all its years of association with Odisha, it has worked with the Government of Odisha and other agencies and organizations for the welfare of the community and environment.

[4]http://www.tatasteelindia.com/corporate-citizen/infrastructure-development/kalinganagar-project.asp. Accessed on 17 March 2017.

Case II—Vedanta Alumina Limited at Lanjigarh, Kalahandi (Odisha)

Vedanta Aluminium Limited (VAL) is a leading manufacturer of metallurgical grade alumina and other high-grade aluminium products, which are used by a wide gamut of industries. The company traces its geneses to the initial years of the current decade when Vedanta Resources, the parent company, was progressively diversifying its operations and growing its presence in the domestic and global aluminium market. Vedanta started its refinery project at Lanjigarh, a small village inhabited by Dongria Kondh tribe. VAL began the progressive commissioning of its 1 million tons per annum (mtpa) ultramodern greenfield alumina refinery project and an associated 75 MW captive power plant at Lanjigarh, Orissa. Afterwards, the company charted out plans for a greenfield 500,000 tpa aluminium smelter and a 1215 MW captive power plant at Jharsuguda, Orissa. The first phase of the aluminium smelter project was commissioned in June 2008. Lanjigarh-based greenfield aluminium refinery became operational in 2008. VAL was awarded the ISO 9001:2008, ISO 14001:2004 and OHSAS 18001–2007 certificates for adopting global standards in environment and health, quality and safety systems. The certificates followed after a successful five-day audit by British Standard Institute (BSI) covering environment and safety and quality standards.

In early July 2009, the Orissa's State Pollution Control Board (OSPCB) issued a show-cause notice to the firm for violating various sections of air and water pollution acts. In early 2010, the Church of England withdrew its equity investment of 3.8 million pounds and three other organizations withdrew their stake of 2.2 million pounds in Vedanta on the ground that the firm's project in Niyamgiri is adversely affecting the life and livelihood of tribals there. Shortly afterwards, Amnesty International alleged in a report that Vedanta Alumina had not properly and adequately informed the local people of the serious potential effects of its project on the environment and health of the people. An Anti-VAL people's group movement started, and some of them demanded the cancellation of the company's mining lease, protection of Niyamgiri hills and return of the tribal land given to the company.

Citing violation of a host of environmental laws, a government-appointed expert panel recommended that Vedanta Resources should not be allowed to go ahead with its proposed bauxite mining project in the Niyamgiri hills area of Kalahandi and Rayagada districts in Odisha.

In case of Vedanta, the panel alleged that the company "consistently violated" the Environmental Protection Act, Forest Conservation Act, Forest Rights Act and the Panchayats (Extension to Scheduled Areas) Act (PESA) "in active collusion with the state (Orissa Government) officials". It said the project threatened the existence of two endangered tribal communities living in the area (The New Indian Express, 17 August 2010). This has completely tarnished the image of Vedanta on the global scale, and a serious effort on the part of organization was required to regain a pro-environment, pro-community image.

Vedanta as a Good Corporate Citizen

The company's mission and values nurture entrepreneurship, growth, excellence, trust and sustainability within the framework of well-defined governance structures and policies and with the demonstrated commitment of management and employees. The organization had started its CSR activities from the initiation stage of the project, and CSR acted as building up a ground for the organization and was seen in the context of overall development of Odisha state.

The organization recognizes the importance of including local communities and other key stakeholders in their development strategy to ensure a positive impact. Rather than simply providing aid, the aim of the organization is to create sustainable livelihood opportunities—improving the quality of life for society and contributing to the basics of life harmoniously. A strong belief in the principle of sustainability is a key component of conducting business in a responsible manner, and it is primary aim of Vedanta to operate as good corporate citizen.[5]

As a group, they are committed to undertake social- and community-based initiatives in the vicinity of their operations, to contribute to the socio-economic well-being and empowerment of communities. A three-tier approach is used to work with the communities—local, regional and state level to maximize the social commitments through a wider reach. The CSR teams identify the needs of the community, prioritize them and prepare various models to address the issues.

The company is committed to providing a safe, secure and healthy workplace for all employees by using best technologies and practices. The company approach to community development is holistic, long term, integrated and sustainable. The work with the communities ranges from rehabilitation and resettlement (wherever applicable) in Greenfield projects, to a more encompassing approach in brown-field projects. The approach is both intensive and extensive depending on whether the village falls in the core or in the buffer zone. The whole progress culminates in integrating various projects in a phased manner aligned to the Integrated Village Development Program.

On the environmental front, Vedanta has a vision to use best in class practices and improve performance year on year through robust operations management. Their efforts are aimed at optimizing resource consumption and minimizing environmental footprint. The strategic goal is to reduce waste generation, increase recycling and maintain environmentally sound operations.

VAL has been proclaiming sustainable growth of the community at Lanjigarh vis à vis of the organization through its very prominent CSR activities.

Despite facing strong opposition from the local community and civil society organizations worldwide, VAL continued with its CSR activities and is gradually establishing a good reputation among the local communities around their project site. This has helped VAL earn a number of awards in community development

[5] http://www.vedantaaluminium.com/empowering-lanjigarh.htm. Accessed on 17 March 2017.

activities of CSR. The activities initiated by VAL have resulted in women empowerment and overall development of the area.

After facing criticism on the environmental front, Vedanta is harping on its CSR activities which to some extent have saved the face of the organization. It is also improving upon its environmental practices and gaining the trust of its stakeholders.

Nike's Path to Corporate Responsibility

It becomes pertinent to examine how the linkage between CSR and reputation plays out in the context of a developed country. The case of Nike has been chosen for drawing this comparison. According to Sirsly and Lvina (2016), change in reputation with CSR activities becomes more pronounced in a manufacturing firm. This phenomenon occurred in Indonesia, a developing economy, but its impact was felt in the USA, where the firm is headquartered; therefore, this case becomes an ideal one for us in the developed economy. In the developed country context, Nike faced the ire of its stakeholders when Harpers Magazine in 1992 featured stories of human rights violation by Nike. Indonesian workers in Nike sweat-shops worked 10 hours a day and earned only 14 cents an hour. This article brought the darkest chapter in Nike's history and a new era in brand management began.

Over the next five years, Nike experienced a remarkable public backlash. Critical reports appeared in publications and charities such as Oxfam Christian Aid joined in. Around the world, the opening of Nike town retail stores were turned into tense, often violent, stand-offs between local police and protesters. On US university campuses, students protested against Nike and forced their sports teams to sever lucrative sponsorship deals with the brand. The Internet was ablaze with anti-Nike sites. The brand became synonymous with slave wages, forced overtime and arbitrary abuse.

Initially Nike response was "how not to handle CSR". Realizing its follies, Phil Knight then CEO Nike in 1998 announced a radical six-point plan wherein Nike introduced independent monitoring, raise minimum working age requirements and set formal targets for improving conditions for workers in contract factories overseas. A huge CSR department was set up and first CSR report came out in 2005. Nike became a pioneer in reporting CSR and adopting some of the unique systems as M-Audit to improve the supply chain and the working conditions in factories. A complete overhauling of processes and policies was carried out. It took 12 years for Nike to re-establish itself as a leading brand in USA markets.

Case Analysis

Negative image of an organization cannot be corrected with just positive communication. The process of resurrecting damaged image takes longer time and skills. It is a daunting task on part of an organization to convince the stakeholders and establish their reputation. Of all the measures adopted by organizations to regain their lost acclaim, stakeholder management via CSR activities turns out to work well. This is quite evident from Indian cases of Tata Steel and Vedanta Aluminum Limited and developed country cases of Shell and Nike companies.

The question looms on what kind of CSR activities should be taken up? Companies should adopt strategic CSR whereby activities should match with the core competency of the organization to be more effective. When a firm seeks out social causes with a high degree of fit with its core business, it will also gain exposure to key stakeholders and vehement critics. Further, when a firm engages in a social cause with a high degree of fit, it is able to engage a wider variety of stakeholders in the initiative (Peloza 2006) and its role for the organization is strategized taking into account the corporate competencies, values of the organization and stakeholder approach, their priorities and salience.

CSR essentially is a normative concept, and hence, CSR creates a reputation that a firm is reliable and honest (McWilliams and Siegel 2001). Though CSR is advocated to be strategic rather than philanthropic these days, it has to be positioned in a convincing way. Klein and Dawar (2004) found in their study that consumers are more willing to forgive if they perceived a firm's positive CSR as a signal of its conscientiousness (Fig. 31.2).

The model depicts the parameters of CSR related to reputation building of an organization. For an organization if these parameters are synchronized, it can lead to synergistic effects not only impacting the reputation but also improving on financial prospects of an organization. Viewed from stakeholder perspective, organizations need to match to stakeholder expectations to maintain their image. A table is prepared to analyse these cases on the above-stated CSR parameters.

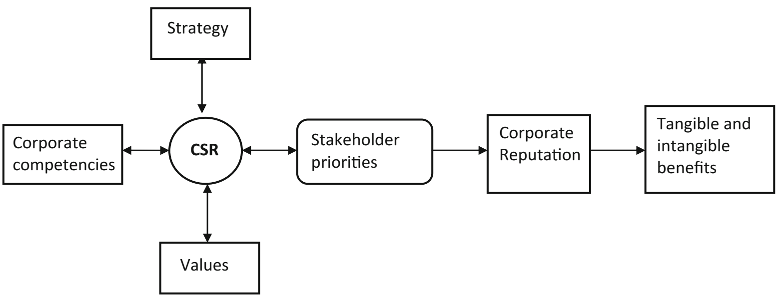

Fig. 31.2 CSR parameters for reputation building

	CSR strategy	Corporate competencies	Corporate value	Stakeholder priorities	Remarks
Tata Steel Ltd.	Redesigned the strategy after the incident. Catering to the demands of tribal communities and formulated excellent resettlement and rehabilitation (R&R) policies	Organization is one of the best task masters, has good policies, is regarded as one of the best employers and is known for its work culture	Organization is known for its philanthropic and CSR activities Sensitive to the needs of people	Tata Steel focused its activities on community development vis-à-vis building a safety net from further upheaval. Systematic and stakeholder desirable activities are given prominence	For Tata Steel, its strategy, competency and values match to stakeholder priorities. Being in sync with stakeholders' aspirations creates greater impact on stakeholders and thus is able to gain their confidence and improve their image
Vedanta Alumina Ltd.	Was showcasing CSR activities for a larger audience, rather than concentrating on primary stakeholders. Later laid focus on community and environmental aspects	Being an MNC has access to best environmental technologies and best practices in CSR	Organization values entrepreneurship, growth, excellence, trust and sustainability	Working towards socio-economic and cultural development of tribal communities. Livelihood of local communities is dealt with but the ecological degradation was earlier neglected	VAL initially portrayed a high spirited image, but faulted on its activities and focus. Having access to resources and their utilization for stakeholders can remake tarnished image

The geographical location and the industry type also have an impact on reputation resurrection. It is important to mention here that Tata Steel and VAL are mining companies, located in the tribal heartland. Mining involves utilization of natural resources, acquiring land of people and scarce livelihood opportunities for them. Both the organizations in their renewed CSR programmes targeted tribal community and catered to their priorities.

The image of trustworthiness created by Tata Steel among the local communities and other stakeholders helped the steel giant to correct a tarnished image. The objective of CSR is not only to deliver certain programmes for the stakeholders, but to integrate these programmes in the organizational set up and cover up the gaps for stakeholder welfare. Tata Steel has a very detailed and objectively oriented plan for next few years for the overall development of the local communities including a strong employee welfare programme confirming to the Millenium Development Goals (MDG). Environment is one of their major concerns. They have involved civil society organizations and environmental NGOs to integrate environmental awareness and conservation activities in their plan.

In this case, Tata brand and their CSR activities operate in synchrony. This also signifies that responsible business practices are key drivers of brand preference. Tata brand is known for its values and ethics. Its CSR activities go hand in hand with its core business, therefore higher credibility. When Odisha was struck by super cyclone Tata relief committee provided relief and necessary aid to 10,000 affected people. In other areas in Odisha, it has revived defunct irrigation projects and reclaimed wastelands in its attempt at sustainable development.

VAL on the other hand has an extensive CSR plan and has tried to incorporate a healthy mix of all the essential parameters but lacks in an integrated approach. It manifests itself in very specific, targeted ways. In case of VAL, it has worked on issues of community development and is improving its approach towards environmental issues and employee welfare.

Mining activities essentially hamper both the social milieu and ecological tranquillity. Therefore, the prime focus of mining sector organization should be to work on these two prime areas. The profile of the corporate should match with its CSR activities to create a greater impact. Tata steel realized this soon to integrate in its activities the resettlement and rehabilitation policies and employment generation for the local community to improve upon their image.

Vedanta realized the potential of community involvement, but missed on the environmental scenario and hence the reprimand. But, nevertheless, the company is now actively trying to build its image as an environmentally sound company taking into account all the stakeholders. Though Vedanta has used CSR as a measure of image resurrection and is continuing in a big way, the organizations have to realize that harping on CSR is not the only image resurrecting point. They have to integrate ethical values in their CSR activities and function in true spirit of responsibility.

Conclusion

Stakeholder perspectives play a vital role in constructing the image of an organization at the initial stage of the organization building; the role of CSR changes when organization expands its scale of operation across the geographical boundaries. In the case of Tata steel and Vedanta, both are well-established brands, despite that their local image was affected due to various issues raised by the media, civil society and NGOs. But as discussed, the organizations Tata steel and Vedanta were able to resurrect their image and survive.

The other issue to be kept in mind is the integration of CSR in corporate governance and in the overall organizational activities. CSR as a separate department cannot function solely, but needs to work in union with the other departments as HR and marketing and build strategies accordingly. CSR on its own can miss the opportunity to create a brand image and may also confuse as well as disenfranchise company stakeholders. Simply talking about CSR is not enough; it needs to be supported by actual business practices, consistent communications, and experienced by stakeholders in very tangible ways (Blomqvist and Posner 2004). On the other side, it is seen that many companies are less concerned about their reputation than, say, Tata Steel, because they do not have a big brand name, because they serve other businesses rather than consumers or because they are less fearful of regulatory interference. Many companies do not take such a long-term view of the business success and are more prepared to pursue short-term profitability in order to serve their shareholders' expectations by avoiding cost increases (Moon 2007). Therefore, responsible business is necessary but not sufficient condition of corporate reputation.

This paper has both academic significance and practical significance. Theoretically, it presents a framework to measure the performance of the organizations on CSR activities. It extends the literature on CSR by presenting a concrete framework to measure advances in CSR performance. It also attempts to explore the underlying but hitherto neglected linkages between the concepts of stakeholder and reputation formation. Paper makes unique contribution by empirically showing that strategic CSR can be used as a tool to not just build image but mitigate negative image of organizations (largely ignored in the existing literature). It delineates and throws light on the two approaches that organizations use. Practically, for business houses wanting to communicate positively about themselves, it presents a framework that managers could follow to be able to achieve the objective. In other words, CSR can also be used for arresting the damage in the reputation and recovering the reputation in addition to contribution towards performance, if managed well by the managers.

The study is limited by the number of cases it took up to study the issue. But in future research, more number of cases can be picked up to look at the generalizability of the model. While the paper provides a model, further study needs to be carried out empirically to test the proposed linkage between the parameters of CSR and reputation formation. Also in future a study of the relative importance of each of these factors in image formation can provide more light on the dynamics between the five parameters of CSR and image building.

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Chapter 32
Sustainability Performance—A Key Marketing Tool for Consumer Brands

Jaspreet Sidhu

Abstract We are living in a resource-constrained world grappling with ever-increasing population. At one hand, this means that consumerism is on the rise, but on the other hand, this puts businesses under extreme pressure to innovate and take future proofing actions. The traditional approach of take-make-dispose for consumer products is being challenged by circular economy and sustainability practices across the value chain. These practices can provide companies with competitive advantage through resource efficiency. Latest market research shows that consumers are becoming increasingly aware of the need for environmental and social performance of companies in addition to financial performance, leading to heightened expectations from their preferred brands. Leading companies are cognizant of these changes and increasing risks posed by social and environmental issues. As a result, companies are taking strategic approach in the context of positively impacting environmental and social ecosystem both inside and outside the business. This has an impact on marketing and brand communication. This chapter discusses industry approaches on using sustainability performance as a tool for marketing across various economies.

Introduction

Leading consumer companies are today taking initiatives towards responsible stewardship which can have a lasting impact on our future. We are living in a resource-constrained world grappling with ever-increasing population. At one hand, this means an ever-increasing consumerism, but on the other hand, this puts businesses under extreme pressure to innovate and take future proofing actions. Many consumer brands, especially luxury brands, have taken a lead in demonstrating sustainable products and responsible business practices. This has been driven by numerous factors, the most notable being rising awareness among

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A. Adhikari (ed.), *Strategic Marketing Issues in Emerging Markets*,
https://doi.org/10.1007/978-981-10-6505-7_32

investment community on climate change and sustainability issues. Until recently, investors have laid their complete trust in financial performance of organizations which served as the key determinant towards investment. Nowadays, investors are considering sustainable investing strategies to assess long-term environmental, social and climate impacts of their business portfolios with increasing regulatory pressures and consumer awareness across the globe.

Circular economy concepts have helped numerous international brands to extend their product life cycles resulting in increased brand equity and increased sales. Consumer brands need to evaluate their product portfolios and geographical performances considering increasing demands for socially and environmentally responsible products.

Demand for Socially and Environmentally Responsible Brands

Today we are faced with numerous environmental and social issues across the globe. In addition, climate change impacts are presenting long-term risks to our industries, agriculture and human settlements. This has resulted in increasing awareness in society for responsible governance. There have been many intergovernmental initiatives to develop consensus and take collaborative action to tackle environmental and social issues. The most notable was the creation of Sustainable Development Goals (SDGs) which is a United Nations initiative. The SDGs provide a framework to tackle environmental and social issues through globally accepted goals, targets and indicators (Sustainable Development Knowledge Platform, n.d.). In 2016, 195 countries reached a consensus on The Paris Agreement to deal with greenhouse gases emissions mitigation, adaptation and finance.

In the face of such concerted global efforts, there is an increasing expectation of diverse stakeholders from businesses to provide a net positive return to society instead of the traditional approach to focus only on financial returns. In India as per Companies (Corporate Social Responsibility Policy) Rules, 2014, qualifying companies are required to spend at least 2% of its average net profit for the immediately preceding 3 financial years on Corporate Social Responsibility (CSR) activities (Ministry of Corporate Affairs, Government of India, n.d.).

Traditionally, investors have used company's profitability and robust financial performance as key drivers for investment. Today sustainable investment principles are linking long-term economic performance with company's environmental and social impacts. As per Morgan Stanley, there are already $6.57 trillion of assets under management in the USA in sustainable investments, and as millennials begin to reach the age where they are investing, this number will only grow (Morgan Stanley, The Business Case for Sustainable Investing, n.d.).

The new generation of consumers is exhibiting new buying behaviour patterns. This change in behaviour is linked with growing disposable income among the new generation of consumers especially the millennials. These consumers expect brands to account socio-environmental issues that are material to their business and communicate their strategy to manage their impact (The Year Of The Millennial Customer: Is Your Customer Experience Ready?, n.d.).

As per the latest research by leading consumer goods company, Unilever, 33% of the consumers are making brand preferences based on their social and environmental impact (brands missing out on £820bn opportunity by not pushing sustainability, n.d.). These 'green consumers' represent an untapped opportunity, given that the market size for sustainable goods is $2.7 trillion. Such consumers shop more frequently than the overall population and are more brand loyal than any other consumer group. Green consumers regularly pay more for brands they trust. Hence, implementing a sustainability strategy in an organization is more pertinent today than ever to a company's growth, community involvement and engagement. Just over 70% of consumer product companies engaging in product sustainability have realized business value from their efforts. Such benefits include reduced costs, improved employee engagement and productivity and increased trust and brand enhancement (Pure Strategies (2014) The Path to Product Sustainability, 2014). In order to develop sustainable products, it is important to measure environmental and social impacts across their life cycle, from raw materials, packaging and manufacturing to product use and end-of-life disposal. Brands with sustainable products actively set targets, deliver improvements and communicate their sustainability performance to consumers.

Brands are taking lead in the context of positively impacting environmental and social ecosystem both inside and outside the business. Brands are actively communicating on their sustainability strategy, by defining long-term targets and projects and using them to in the realm of brand marketing.

Innovation and responsible stewardship can enable companies to enhance their sustainability performance while ensuring robust financial performance that is immune to market risks. Companies should aim for shared value wherein the core business creates value that is shared with the society. This can be delivered through effective collaboration with other stakeholders, both upstream and downstream of the supply chain. An effective stakeholder engagement helps companies identify material issues that may impact their business in short and long term. The triple bottom line thinking has helped businesses in taking shared value approach.

However, for majority of the corporate world short-term financial gains still drive day-to-day decision-making, while stakeholder value hinges on company's robust financial performance. Companies faced with reputational risks often launch social initiatives as independent projects instead of linking it to the core business. Companies fail to strengthen their processes to ensure that the core business adds value to society.

Review of the Literature

The literature pertaining to the concept of using sustainability in the context of marketing is reviewed. Frank Belz and Ken Peattie (2009) in the book "Sustainability marketing: a global perspective" provide a new sustainability-oriented vision of marketing for the twenty-first century (Frank-Martin Belz, 2012). The book provides consumer marketing focus based on combining sustainability principles into both marketing and the practical decision-making. The book provides a systematic approach involving analysis of socio-environmental priorities, followed by integration of sustainability issues into marketing strategy development.

Ruth Rettie et al. (2012) in the paper "Normalising green behaviours: A new approach to sustainability marketing" discuss sustainability marketing as a tool that can be used to encourage consumers to adopt sustainable practices (Rettie, Burchell, & Riley, 2012). The research involved a survey of 1000 UK respondents' attitudes to 15 specific activities. Vinod Kumar et al. (2012) have reviewed various linkages between marketing and sustainability (Kumar, Rahman, Kazmi, & Goyal, 2012). They discuss increased role of sustainable business practices in developing marketing strategy and its future outlook.

Leading Sustainable Marketing Initiatives

Companies that are industry leaders are taking strategic approach in the context of positively impacting environmental and social ecosystem both inside and outside the business. This is driven by rising awareness among investors and consumers as well as increasing demands from regulatory standpoint. In developed countries, this is increasingly evident in companies' approach to business.

In Europe and Canada, there are existing and new guidelines on extended producer responsibility and circular economy in the context of packaging materials, tires, batteries, waste electrical and electronics equipment (European Policy on Extended Producer Responsibility, n.d.). Most developed economies are moving towards zero waste to landfill and making producers responsible for diverting waste from landfill to innovative product design, stewardship and consumer awareness and strategic brand communications. This has led to increasing focus on using sustainability initiatives as a tool to marketing and branding as well as compliance management.

Consumer goods companies are taking initiatives to use sustainable raw materials moving away from traditional dependence upon conventional raw materials. For example, H&M was the second largest user of organic cotton in 2016. H&M has set a target to use only cotton that comes from sustainable sources by 2020 (H&M Sustainability, n.d.). American clothing company, Patagonia, uses variety of sustainable raw materials such as natural fibre, hemp, organic cotton, recycled nylon, recycled polyester, recycled wool, reclaimed wool, yulex (Patagonia

Materials & Technologies, n.d.). Such products are sold with product certification logos to communicate use of sustainable raw materials. These partnerships are communicated as branding and marketing communication as well. Top brands such as Marks & Spencer and H&M disclose their partnership with Fairtrade Certification, Better Cotton Initiative (BCI), etc.

Climate change has become an increasingly critical topic that has gained consumer attention. Numerous governments across the globe (such as Europe, Australia, Canada) have enacted legislations requiring companies to measure and report their greenhouse gas (GHG) emissions. In 2016, H&M group reduced its CO_2 emissions by 47% compared to 2015. Since 2013, its CO_2 emissions have decreased by 77%. H&M has set itself a goal of becoming climate positive across our entire value chain by 2040 (H&M Sustainability, n.d.). These communications are increasingly visible to consumers during both in-store and online marketplace of the brands/companies.

In an attempt to reduce and divert end-of-life consumer products going to landfill, companies take numerous initiatives to focus on increasing recycling of their products. For example, Patagonia offers free repairs as well as lessons for customers to fix their own gear (Patagonia Worn Wear Program, n.d.). H&M's garment collecting initiative has gathered more than 32,000 tonnes of garments since 2013[1]. This year, the Ellen MacArthur Foundation launched New Circular Fibres Initiative which brings industry together to build a circular economy for textiles (Ellen Macarthur Foundation Circular Fibres Initiative, n.d.).

Opportunities in Emerging Economies

As per consumer studies, the consumers in emerging markets are more responsive to sustainable marketing communication than those in developed countries. Consumer satisfaction at buying sustainable products was reported as 53% among shoppers in UK and USA compared to 88% in India and 85% in both Brazil and Turkey (brands missing out on £820bn opportunity by not pushing sustainability, n.d.).

This is primarily due to extreme adverse impacts of climate change and unsustainable business practices in emerging economies. Such economies are expected to be impacted heavily by poor air quality, acute water shortages, rising water levels and extreme weather conditions. This is evident through conditions of poor air quality in Beijing and Delhi.

As a result, sustainability is no longer a good-to-do alternative for businesses. Long-term success of businesses globally, and especially in emerging economies, depends upon integrating economic, social and environmental performance.

[1]https://about.hm.com/en/sustainability/get-involved/recycle-your-clothes.html.

Companies have responded to this consumer demand and changed their communication strategy in emerging economies. Large multinational companies have supply chain that relies heavily on emerging economies due to cheap labour and raw material. However, issues related to working conditions, human rights, subsidies and price pressures that were traditionally ignored are now being addressed through industry associations and international standards. For example, Fairtrade certification for products ensures better prices, decent working conditions and fair terms of trade for workers across the supply chain. In addition to cotton, this certification exists for other products such as coffee, cocoa and seafood.

Companies are developing product portfolio with sustainability attributes. This is an inherent characteristic of the product which demonstrates economic, environmental and social responsibility. It is recognized on the basis of the positive environmental and/or social impact the product has in the way it is sourced, produced, transported, used and disposed. This requires to understand equitable distribution of resources, opportunities and interconnections among economy, society and environment. This may include food items that have less to zero leftovers in containers through innovative packaging design, use sustainable raw materials, ethical manufacturing and retailing.

As an example, say how does a large apparel company develop sustainable attributes?

These attributes are identified based on material issues related to environmental and social impact of the company from its products and business operations. Considering a majority of apparel companies work on contract manufacturing, as responsible companies, they need to work with their suppliers to ensure compliance with Code of Conduct. Hence, a set of non-negotiable sustainable attributes include:

- No child labour
- Minimum wage payment ensured
- Factory licence, Fire NOC
- ESI, PF registration
- No sexual harassment/physical punishment
- Clean drinking water for workers
- Structurally safe premises
- Working hours documented
- Contract labour having all required licences.

As a market leading brand, however, companies need to move beyond regulatory compliance and into the domain of industry best practices. One of India's largest business conglomerates, Aditya Birla Group, has put sustainability and responsible stewardship at the centre of their business strategy. The Group aims to be a market leader in sustainable business practices in India by 2017 (ABFRL Sustainability, n.d.). The Group's apparel and retail company, Aditya Birla Fashion and Retail (ABFRL), is leading the change for Indian apparel companies. The company has partnered with Khadi and Village Industries Commission (KVIC), to sell locally made sustainable khadi products. This initiative is aligned with Indian government's efforts to promote khadi and other hand-woven fabrics. As a part of this strategic partnership, Peter England, one of the fashion brands under ABFRL, will develop an exclusive product line branded as 'Khadi by Peter England' (Marketing Convergence Between KVIC and ABFRL).

Other companies in the apparel and retail sector are taking following initiatives to develop sustainable projects and communication:

- Raw materials: Use of innovative new raw materials such BCI, hemp, livia, jute, recycled material, modal fibre from lensing
- People: Working with suppliers with certification from international organizations such as Fairtrade
- Technology innovation: Working with suppliers to promote use of green innovative technologies such as eco-dyeing, ozone technology to reduce climate impact
- Adherence to Code of Conduct: Develop supplier rating methodology and setting progressive targets for suppliers to improve performance
- Packaging solutions: Developing innovating packaging solutions to reduce product to packaging ratio.

The biggest contrast between developed and emerging economies in the context of sustainability is the level of maturity of related regulations and guidance. The regulatory push towards sustainability puts higher demand on companies to redesign business processes to include social and environmental performance to secure its long-term economic sustainability. In contrast, companies in emerging economies are responding to consumer demands instead of regulatory requirements. In addition, multinational companies with supply chain in developing countries are using their internal company standards to develop voluntary sustainability programs. However, the move towards responsible brand management has become increasingly popular across both developed and emerging economies.

Brand Communication on Sustainability

Sustainability is a strong tool that can be leveraged to derive resource efficiencies through innovation leading to marketing opportunities and building brand equity. Hence, it is important to embed sustainability in the way of doing business such that all marketing communication is meaningful to brand, business and culture. Sustainability branding by some of the leading companies has been hugely successful in the recent past. For example, Puma's Environmental and Social Profit and Loss statement created huge buzz when it was first launched in 2011.

Sustainability is a continuous process, and similarly all sustainability communication and branding have to be long term. It should reflect companies' ambition and aspirations to engage with stakeholders to do the right thing. These include building on existing performance (even if it is only elementary), highlighting long-term ambitions, celebrating milestone activities and active performance for future amplification. Digital marketing can be leveraged to engage customers through social media on sustainability themes. Material sustainability ideas can be further used to build effective marketing campaigns. For example, Patagonia launches a cross-country mission to change people's relationship with stuff, getting out in the community to bring its mission and activism to life. The brand's Worn Wear Mobile Tour travels from west to east coast offering free repairs as well as lessons for how customers can fix their own gear (Patagonia Worn Wear Program, n.d.).

Sustainability is an important tool for brand communication for industries which are expected to be heavily impacted by climate change in future. Such companies are mainly those that rely a lot on natural resources such as fossil fuels, mining, rare metals, agriculture, water. One of the examples of such companies is Unilever, FMCG giant. Unilever identifies the realities of changing social structure, new business risks (such as impact of climate change on business) and growing stakeholder concerns about business continuity and growth. The company has branded itself heavily on sustainability. Its program "The Unilever Sustainable Living Plan (USLP)" is one of the best examples of embedding sustainability in the overall corporate strategy. The USLP sets company's long-term goal to meet its business objectives while ensuring minimal environmental footprint and positive social impact. The Plan sets three big goals to improve health and well-being of its customers, providing fair and inclusive workplace for its employees and reducing the environmental impacts of its business. In order to meet these goals, Unilever collaborates with diverse stakeholders across its value chain including governments, suppliers and consumer groups. USLP is the driving force behind company's vision of making 'sustainable living commonplace' (Unilever Sustainable Living Plan).

Conclusion

The latest consumer research shows that consumers prefer to buy sustainable products and choose brands that communicate their initiatives on sustainability through on-pack declarations or marketing outreach. The estimated market size for sustainable products has reached €2.5tr (£2.1tr). (brands missing out on £820bn opportunity by not pushing sustainability, n.d.). This calls for action on companies especially consumer goods sector to account for social and environmental impact of their goods. Consumers demanding sustainable and responsible goods are opinion leaders and early adopters. Such consumers shop more frequently than the overall population and are more brand loyal than any other consumer group. Green consumers regularly pay more for brands they trust. Hence, implementing a sustainability strategy in an organization is more pertinent today than ever to a company's community involvement and engagement. Sustainability encompasses environmental, economic and social standards and by pledging that your organization is taking part in a movement to provide for and maintain a level of comfort in those key areas is encouraging. Announcing social and environmental performances gives analysts a better understanding of a corporation's investment potential.

Traditionally, sustainability has been considered an ethical and moral issue; however, in present times it is a topic that is central to brands' identity. Sustainability is also relevant from a marketing standpoint as it holds the key to building effective stakeholder relationships. Companies are designing new and effective ways to use sustainability as a source of competitive advantage by making it central to its business communications. Technology advancements, new means of consumer outreach and market research allow companies to meet the rising demands on sustainability.

Brands are taking lead in the context of positively impacting environmental and social ecosystem both inside and outside the business. Brand communication ranges from the realm of pure brand marketing and expressions of current state of sustainability, to defining long-term targets and projects which the brand can contribute towards attaining. Sustainability needs to be embedded in the way doing business such that all marketing communication is meaningful to brand, business and culture which requires bold thinking.

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