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

D. Alleppa (✉)
Hongkong and Shanghai Banking Corporation, Hyderabad, India
e-mail: div.al29@gmail.com

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.

[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.