An examination of market entry perspectives in Emerging Markets

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Abstract

This article examines emerging markets from two major perspectives. First the financial growth models typically based on a country's GDP growth; this financial growth perspective gave rise to seven major definitions of emerging markets: BRICs, CIVETS, MINT, etc. The second perspective is an economic levels perspective based on the World Economic Pyramid; this economic levels perspective resulted in three global categories – the Top, Middle and Base of the Pyramid (BoP) markets. A new market expansion and market entry strategic model is proposed for each of the three World Economic Pyramid levels: Inter-country expansion, Intra-country entry, adjacent market entry, and Opposite market entry approaches. Prahalad's 4 A's marketing strategy (Awareness, Affordability, Access and Availability) for the BoP market is discussed, and the requirement for an articulated marketing strategy for the "middle market" is identified.

Six operational biases identified by BoP strategic theorists held by MNCs regarding BoP market approaches are identified and discussed. And finally, the BoP strategic theorists identified the need for a BoP marketing focus replacing the traditional 4P marketing approach (i.e., Product, Price, Place and Promotion) with a BoP 4A marketing approach (i.e., Awareness, Affordability, Access and Availability). This article summarizes these recently evolving perspectives and insights to provide a context for future market research in both emerging and BoP markets.

1. Introduction and Purpose

Having found their mainstream markets saturated in the 1990's Multinational Corporations (MNCs) (Letelier, Flores & Spinosa, 2003), MNCs began focusing their attention on perceived market opportunities in the newly emerging middle-class markets of Africa, Asia, the Caribbean, China, Eastern Europe, and India. Continuing into this decade, Sheth (2011) observed that while the 1900's focused on marketing in the advanced economies, this century is focusing on marketing in the emerging markets. A challenge faced by MNCs includes the lack of a standardized emerging market typology, resulting in several questions: What criteria should be used to define an emerging market? Which countries were emerging markets? Which countries were the optimal targets for entry? These questions indicated a sense of uncertainty and confusion in the marketplace, and a lack of clarity among market researchers exploring emerging markets.

Financial institutions (e.g., investment banks) perceived this market uncertainty, recognizing a tremendous opportunity for both innovative investment products and related financial consulting and corporate advisement services. Based on a variety of financial growth criteria, 2001 to 2013 saw the proliferation of seven major definitions of emerging markets originating in the financial services industry. Goldman Sachs led this proliferation with their seminal and widely accepted *BRIC* grouping, which later evolved to *BRICS*.

At the same time, economists adopted a different methodology: focusing on a classification of the economic levels of countries around the globe. This economic level analysis originally lead to the Bottom of the Pyramid perspective, now called the Base of the Pyramid (BoP). A 2006 study by the World Resources Institute (WRI) and the International Finance Corporation (IFC) estimated that the BoP consumer market had $5 trillion in purchasing power parity, representing a huge untapped market opportunity (Hammond, Kramer, Katz, Tran & Walker, 2007; World Resources Institute, 2006). With the introduction of the BoP economic framework, MNCs became aware of the significant market opportunity in this previously unrecognized and untapped market segment.

2. Financial Growth Perspective

Financial institutions focused on financial growth characteristics to identify emerging markets for both the benefit of their clients, and as a basis for their own competitive advantage in the financial industry. The historical sequence of the emerging market groupings is concisely presented below.

- **BRIC**s – In 2001, Jim O'Neill, Managing Director and Head of Global Economics Research at Goldman Sachs, identified and labeled the four largest emerging markets with the fastest growing GDPs as the BRIC countries – Brazil, Russia, India and China (O'Neill, 2001). The BRIC countries were identified as the economic growth opportunities of the future with the potential for substantial future development.
- **Next 11** – In late 2005, Goldman Sachs identified and labeled the next set of large-population countries beyond the BRICs as the Next 11 countries – Bangladesh, Egypt, Indonesia, Iran, Korea, Mexico, Nigeria, Pakistan, Philippines, Turkey and Vietnam (Wilson & Stupnytska, 2007). The Next 11 were identified as a secondary pool of emerging markets.
- **BRIC**S – As a result of the tremendous interest in the innovative BRIC acronym, the four BRIC countries began to engage in joint economic development and cooperation activities. In 2006 the BRIC foreign ministers met in New York, with the first annual BRIC Summit taking place in Russia in 2009 (Kramer, 2009). In 2010 South Africa was invited to attend the annual BRIC Summit as a guest member, and formally invited at the 2011 BRIC Summit.
- **CIVETS** – In 2009, Robert Ward of *The Economist Intelligence Unit* identified six emerging market countries with large and young populations, diversified economies, relative political stability and decent financial systems: Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa.
- **EAGLEs** – In November 2010, *Banco Bilbao Vizcaya Argentaria, S.A.* (BBVA), the second largest bank in Spain, created the Emerging And Growth-Leading Economies (EAGLEs). EAGLES were selected as those countries expected to contribute more to global GDP growth than the average of the six largest developed economies (excluding the U.S.) each year for the next ten years (Garcia-Herrero, Navia & Nigrinis, 2010). The initial ten EAGLEs: Brazil, Russia, India, China, Egypt, Indonesia, South Korea, Mexico, Taiwan, and Turkey.
- **MIST** – In January 2011, Jim O'Neill of Goldman Sachs presented a new tier of large rapidly growing emerging economies called MIST countries: Mexico, Indonesia, South Korea and Turkey (Gupta, 2011). The MIST countries shared the three common traits: a large population and market, a big economy with each ~1% of global GDP, and membership in the G20.
- **MINT** – In May 2011, Fidelity International identified new emerging market investment opportunities, which it labeled the MINT countries – Mexico, Indonesia, Nigeria and Turkey (Bamford, 2011).

3. Economic Levels Perspective

During this same time economists adopted a different methodology, initially focusing on classifying the economic levels of emerging markets. In 2000 Hoskisson, Eden, Lau and Wright (2000) identified emerging economies as low-income, rapid-growth countries using economic

liberalization as their primary engine of growth. Hoskisson *et al.,* (2002) divided these emerging economies into two major categories: (1) *developing countries* as found in Asia, Latin America, Africa, and the Middle East, and (2) *transition economies* as found in the former Soviet Union and China.

3.1 The first generation BoP: the Bottom of the Pyramid. Prahalad and Hart (2002) observed that MNCs were realizing neither the expected product sales nor the resulting financial and marketing benefits from the identified middle-class emerging markets. Prahalad & Hart stated that the "prospect of millions of "middle class" consumers in developing countries, clamoring for products from MNCs, was wildly oversold" (2002, p. 1). The authors proposed that the MNCs had incorrectly focused on middle-class consumers, when they should have focused on "the billions of *aspiring poor* who are joining the market economy for the first time" (2002, p. 1).

In defining the economic levels of the BoP market, the framework Prahalad utilized was the world economic pyramid (WEP). Prahalad utilized the economic measure of Purchasing Power Parity (PPP) to compare the economic states of multiple countries (Prahalad, 2005; Prahalad & Hammond, 2002). Prahalad's early conceptualizations of the BoP progressed through several iterations, ultimately solidifying into a conceptual structure with five tiers of economic income levels (Prahalad, 2005; Prahalad & Hammond, 2002; Prahalad & Hart, 2002).

- Tier 1: At the top of the WEP were 75 to 100 million affluent global consumers (1.7% of the global population) predominantly in the developed countries, with an annual income level greater than $20,000 in Purchasing Power Parity (PPP) as measured in U.S. dollars.
- Tier 2 and Tier 3: These two tiers represent 1.5 to 1.75 billion people (29.9%): poor consumers in developed nations and the rising middle class in developing countries, with an annual income level of $1,500 to $20,000 in Purchasing Power Parity (PPP) as measured in U.S. dollars.
- Tier 4 and Tier 5: The bottom of the WEP represents 4.0 billion people (68.4%) at literally the bottom of the pyramid: poor consumers in developing countries, with an annual income level of less than $1,500 in Purchasing Power Parity (PPP) as measured in U.S. dollars.

3.2 Core benefits of the BoP approach. Prahalad and Hart (2002) proposed two core benefits. First, the benefits to the MNCs included substantially increased product sales growth and revenues. The increases in revenues were attributed to improved operating efficiencies, the use of technologies, and the identification of new sources of innovation (Hammond & Prahalad, 2004; Prahalad & Hammond, 2002). Second, the potential for global poverty alleviation was identified as an obtainable goal. Prahalad's approach was based on "doing well" financially, while simultaneously "doing good" for those in the BoP (Prahalad & Hammond, 2002).

3.3 The second generation BoP: The Base of the Pyramid. In 2006, the World Resources Institute (WRI) and the International Finance Corporation (IFC) released an in-depth comprehensive study of the world's socioeconomic structure (Hammond *et al.,* 2007; World Resources Institute, 2006). The WRI and the IFC examined aggregate data in four developing regions – Africa, Asia, Eastern Europe, and Latin America with the Caribbean; they examined 110 countries for which household data was available. The resulted in three population segments.

- The Top of the Pyramid: the high income population segment contained annual incomes above $20,000 (in 2002 PPP).
- The Middle of the Pyramid: the mid-market population segment contained annual incomes above $3,000 and up to and including $20,000 (in 2002 PPP).
- The Base of the Pyramid: the BoP population segment was defined as those annual incomes up to and including $3,000 (in 2002 PPP).

Extending the initial Prahalad model, London and Hart (2011) defined a second generation of approaches with both evolutionary orientations and value propositions. This second generation approach defined a fortune creating perspective with an emphasis on co-creating new business models, technology solutions, and value propositions with the BoP (London & Hart, 2011).

4. Distinct Characteristics of the BoP Market

Early research identified BoP markets as possessing unique characteristics, specifically existing as a non-homogeneous market segment both within and across countries (London, 2007). With increasing awareness of the BoP market as a potentially attractive and viable market, marketers seeking a competitive advantage BoP market segment and the superior financial performance that accompanies that competitive advantage, began to study the BoP market using an environmental scan (Hunt, 2002; 2010). Kennedy and Novogratz (2011) identified five unique factors that describe the BoP markets:

1. There are many unaddressed needs at the BoP, both government provided and those neglected needs because people are perceived to be too poor.
2. BoP markets are beset by poor infrastructure with inadequate distribution networks and poor access to both education and information.
3. Corruption is common, sapping economic value from the system.
4. Low purchasing power makes it difficult for new goods and services to enter the market.
5. There is a lack of equity capital, as traditional capital providers typically bypass BoP entrepreneurs.

4.1 Doing business in the BoP: Potential MNCs' misconceptions

Prahalad and Hart (2002) initially identified six assumptions held by MNCs that the authors suggested should be reevaluated as a precursor to the MNC entering the BoP market, which since have been in multiple studies (Hammond & Prahalad, 2004;Prahalad & Hammond, 2002).

1. The poor are not target because with their current cost structures, MNCs cannot profitably compete for that market.
2. The poor cannot afford and have no use for the goods and services sold in developed markets.
3. Only developed markets appreciate and will pay for new technology. The poor can be relegated to using the previous generation of technology.
4. The subsistence market is not important to the long-term viability of a MNC's business, and it should be left to the government and the non-profits.
5. Managers are not excited by business challenges that have a humanitarian dimension.
6. Intellectual excitement exists in developed markets but it is hard to find talented managers who want to work in the bottom of the pyramid.

4.2 Marketing in the BoP

To successfully introduce goods and services into BoP markets, traditional marketing theories will need to be validated for applicability. With the articulation of the WEP framework and the recognition of the inherent bias of the MNCs' in their strategic approach to the BoP market, Prahalad proposed an alternative to the traditional 4 Ps: the 4 A's(Prahalad, 2005; 2010; 2012). His 4 as include:

1. Awareness of the product and service so that the BoP consumer knows what is available, and how to use the product or service.
2. Affordability of the product or service for the BoP consumer.
3. Access to the product or service, even for those consumers in remote geographical areas.
4. Availability of the product or service with an uninterrupted or continuous supply of the product or service.

Not only are there unique characteristics in the BoP market, the BoP consumer has unique characteristics on an individual-level as well. Viswanathan, Rosa and Harris (2005) found that functionally illiterate consumers displayed cognitive tendencies, with decision rules and consumer coping behaviors that were distinctly different from literate consumers; some of the identified behaviors included reliance on pictures, poor math skills impacting price and product comparisons, and overall reluctance to ask for assistance.

5. Strategic Approaches to BoP Markets

Topics that have received substantial focus in the BoP literature are management strategy, strategic development and strategic approaches for doing business in the BoP markets. Ricart, Enright, Ghemawat, Hart and Khanna (2004) found that the BoP highlighted significant limitations in the approaches to global and emerging market strategies; these authors found that attempts to leverage existing MNC capabilities are inadequate in entering BoP markets.

5.1 New capabilities and new business models

The BoP requirement for new MNC capabilities has been identified by multiple studies. Seelos and Mair (2007) reviewed the initial BoP strategic literature identifying the requirement to develop new capabilities and business models to foster marketing success in BoP markets. Olsen and Boxenbaum found that the BoP market requires the development of new business approaches "related to buying, manufacturing, packaging, marketing, distributing and advertising products" (2009, p. 103).

Wright et al. (2005) identified four new market entry strategies and introduced a strategic framework employing only two categories of markets: well developed and emerging markets. The four market entry strategies include: 1) firms from developed economies entering emerging economies, 2) domestic emerging market firms competing within their own emerging market, 3) emerging market firms entering other emerging markets, and 4) emerging market firms entering developed economies.

5.2 New market entry approaches

Figure 1presents a comprehensive approach to examine market entry strategies. This approach identifies the options a firm has for market expansion and market entry in the three world economic pyramid levels – Top, Middle and Base. Firms, irrespective of their market of origin have four market expansion and market entry choices, specifically:

1) Market expansion into its own country (Intra-country expansion).Traditionally this is defined as market penetration.
2) Market entry into other countries which are in the same economic level market (Inter-country entry).
3) Market entry into an adjacent economic level market, either down one level or up one level.

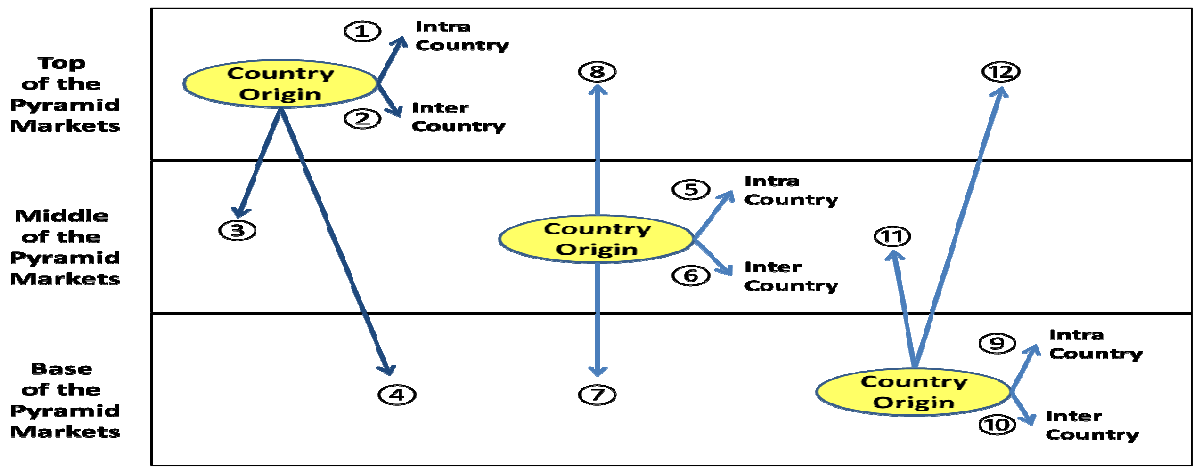

Figure 1. Global Economic Levels & Strategic Market Entry Approaches

4) For the Top or Base economic level markets, market entry into the market at the opposite end of the economic pyramid. From a Top market, this is market entry downward two levels into the Base market; from a Base market, this is market entry upward two levels into the Top market.

As depicted in Figure 1, there are twelve market expansion and market entry approaches, each presented briefly below.

5.3.1 Top Tier Approaches

- ***Approach 1 – Intra-country expansion.*** A Top market firm expands into additional markets in its Top home country.
- ***Approach 2 – Inter-country entry.*** A Top market firm enters into an additional country outside its home country, while still within the Top market.
- ***Approach 3 – Adjacent market entry.*** A Top market firm enters into the Middle market. Showing ongoing international market entry in a downward direction, the U.S. based firms McDonald's (2013)and Starbucks (2012) opened additional stores in the Middle BRIC market countries including Brazil (GDPpC $12,100), Russia (GDPpC $18,000), India (GDPpC $3,900), or China (GDPpC $9,300).[1]
- ***Approach 4 – Opposite market entry.*** A Top market firm enters into the Base market. An example is McDonald's with stores in 118 countries, including Base market countries such as Pakistan (GDPpC $2,900).

5.3.2 Middle Market Approaches

This tier has annual incomes from $3000 to $20,000.

- ***Approach 5 – Intra-country expansion.*** A Middle market firm expands into additional markets in its Middle home country (i.e., market penetration). For example, the Brazilian firm The Marfrig Group (2013), a food product company including Marfrig Beef and Seara Foods,opened additional stores in Brazil(GDPpC $12,100).
- ***Approach 6 – Inter-country entry.*** A Middle market firm enters an additional country outside its home country, while still within its Middle Market. The Marfrig Group (2013), a Brazilian firm, distributes its products in China, another Middle market country (GDPpC $9,300).
- ***Approach 7 – Adjacent market entry downward.*** A Middle market firm enters the Base market. Lenovo (2013), is a US$30 billion Chinese middle market personal technology company and the world's second-largest PC vendor. Lenovo distributes its computer products into Base market countries including Nigeria (GDPpC $2,800), Sudan (GDPpC $2,600), and Bangladesh (GDPpC $2,100).
- ***Approach 8 – Adjacent market entry upward.*** A Middle market firm enters into the Top market. Showing ongoing international market entry in an upward direction, The Marfrig Group (2013) distributes its products into Top markets including the United Kingdom (GDPpC $37,500).

5.3.3. Base of the Pyramid Markets

This tier has annual incomes up to and including $3,000.

- ***Approach 9 – Intra-country expansion.*** A Base market firm expands into additional markets in its Base home country. Showing ongoing domestic expansion, Grameen Bank, a micro-lenderand bank founded in Bangladesh, opened additional bank offices and locations in Bangladesh (GDPpC $2,100).
- ***Approach 10 – Inter-country entry.*** A Base market firm enters into an additional country outside its home country, while still within the Base market. Showing ongoing international market entry into an equivalent Base market level, Grameen Bank opened additional banking locations in other Base countries like Nigeria (GDPpC $2,800),and Uganda (GDPpC $1,460).

[1]Note: all GDPpC data is from *The World Factbook*, Central Intelligence Agency, 2013

- ***Approach 11 – Adjacent market entry.*** A Base market firm enters into the Middle market. Showing ongoing international market entry in an upward direction, Grameen Bank entered into several Middle markets including India (GDPpC $3,900), China (GDPpC $9,300), and Mexico (GDPpC 15,600).
- ***Approach 12 – Opposite market entry.*** A Base market firm enters into the Top market. Showing ongoing international market entry in an upward direction into Top markets, Grameen Bank has entered into a Top market in Saudi Arabia (GDPpC $31,800).

5.4 Unique market segments require unique articulated strategies

The economic level perspective defined three unique levels of the world economic pyramid – Top, Middle and Base. These three economic levels can be viewed as three unique market segments. These three segments are relatively large market segments with the BoP as the largest segment, with a segment population exceeding four billion people.

Table 1 highlights the distinction between the three major global economic level segments, and the historic marketing strategies of the traditional 4 Ps approach applied to the Top of the Pyramid segment, and the relatively new 4As approach of Prahalad applied to the BoP segment.

What is currently missing is the fully articulated marketing strategy tailored for the unique needs of the Middle of the Pyramid. The marketing strategy for the Middle of the Pyramid has not yet been defined. There are several strategic approaches which could be applicable in this Middle market. First, a blended strategy might be optimal, blending the 4 Ps of the Top market strategy with the 4 as of the Base market strategy. This blended approach has not yet been fully described and articulated. A second approach would be to develop a new innovative market strategy that would be tailored specifically for the unique market characteristics of the Middle market. This innovative approach has not yet been crafted by marketing practitioners and strategists. This undefined strategy can be illuminated through future market research.

Global Economic Level Market Segment	Articulated Marketing Strategy
Top of the Pyramid (ToP) • Per capita annual income > $20,000	**4 Ps** • Product • Place • Price • Promotion
Middle of the Pyramid (MoP) • Per capita annual income ≤ $20,000, and> $3,000.	**Undefined as yet** • Potential mixed 4 Ps & 4 As strategy? • Potential new innovative strategy?
Base of the Pyramid (BoP) • Per capita annual income ≤ $3,000	**4 As** • Awareness • Access • Affordability • Availability

Table 1. Global Economic Level Segments & Articulated Marketing Strategies

Conclusion

The growth in both emerging Middle markets and Base markets will have an impact on marketing practice. Marketers in Top market economies have become extremely proficient at marketing in other Top market economies. Now, these same marketers are being asked to develop innovative marketing approaches for those Middle and Base market segments. This paper has proposed four potential market entry strategies applicable across all three global economic levels – the Top, Middle and Base markets. These strategic market entry models will assist future market research initiatives with an enhanced organization, leading to additional insights.

After the selection of the most appropriate market entry strategy, an articulated marketing strategy must be utilized to develop the tactical tools required for success in each of the three unique economic level segments. Prahalad's 4As, although relatively new to marketing activities, appear to be appropriate for success in the Base market segment. What remains to be defined is the most appropriate marketing strategy for the Middle market segment. Hopefully the perspectives outlined in this paper will assist future researchers as they exam a variety of strategies to determine the optimal approach for the Middle market segment.

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