DOING BUSINESS IN EMERGING ECONOMIES

(With special reference to India)

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ABSTRACT

Emerging economies, also known as emerging markets or developing countries, are countries that are investing in more productive capacity. These countries are moving away from their traditional primary industry economies that have relied on agriculture, fishing, mining and the export of raw materials. Leaders of developing countries want to improve the well being for their people. Therefore, they are rapidly industrializing and moving towards a free market economy. In today's global environment, as companies seek sustainable competitive advantage, they need to develop effective strategies to deal with emerging markets. These emerging economies, such as India, offer investors higher potential returns, but they also involve greater risk than developed countries like the United States. Emerging markets are riskier investments that generally offer high potential returns in return for taking on the added risk. The risks are due to high rate of illiteracy and poverty coupled with poor infrastructure, high inflation rate etc.

The researcher will study the new business theories that companies can use to penetrate these markets. Consumer expectations and value systems in these markets are quite different from those of developed countries. With markets in developed world almost stagnant, how companies can grow and make profit in these emerging economies.

Introduction

Emerging markets, usually in developing countries have long been regarded as the "promised land" of the multinational companies. The World Bank defines developing countries as those with either low or lower middle per capita income. As of 1 July 2016, low-income economies are defined as those with a GNI per capita, calculated using the World Bank Atlas method, of $1,025 or less in year 2015; lower middle-income economies are those with a GNI per capita between $1,026 and $4,035; upper middle-income economies are those with a GNI per capita between $4,036 and $12,475; high-income economies are those with a GNI per capita of $12,476 or more. The per capita income of India stood at $1600[1] for year 2015. These emerging markets are expected to play a vital role in sustainable growth in the industry. With huge populations, increasing prosperity, and improving longevity (albeit at differing rates), these markets are very attractive to those companies suffering from the stagnation of mature markets, patent expirations, and increased regulatory hurdles.

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However, although developing countries offer huge untapped potential, they display a wide diversity in their stages of development, particularly with regard to their GDP, literacy rate, economic regulations, infrastructure and primary healthcare. Along with this, Indian economy has diverse socio-cultural make-up. For this reason, there can be no "one-size-fits-all" approach to emerging markets.

"Too late, too fast, too overconfident": The sorry list of mistakes that companies have made in emerging markets is long, and the resultant squandering of resources has been great. As one manager stated, "One of our biggest mistakes was to treat emerging markets like mature markets. We were wrong, marketing strategies have to be adapted as per a country's individual needs and its level of development." Thus, this is a time of changing priorities for global marketing executives. As growth patterns in developed markets continue to flatten, firms are shifting more of their focus to finding new sources of revenues and profitability in emerging markets.

Driven by rapid economic growth, increasing wealth and a growing consumerism, emerging markets are developing into sources of significant growth for businesses. But there is also reason for caution: The initial enthusiasm that erupted when emerging markets first demonstrated their potential has often given way to disappointment, as early — and possibly exaggerated — expectations remain largely unfulfilled.

Since business models typical of mature economies have often failed to adequately tap the huge potential attributed to emerging markets. Hence, business leaders are rethinking and, in many cases, transforming their operating models to better address what they have learned about these markets. Traditional models have for decades, been largely denied by fully integrated global operations, but, without appreciating local tastes, cultures, values and ethos. Emerging markets have usually been regarded as places for selling products, at times even obsolete technologies of developed markets, but very rarely as potential locations for developing new paradigms.

India is the second most populated country in the world with nearly a fifth of the world's population. According to the United Nations, in July 2016, the Indian population stood at 1,326,801,576[2], with estimated growth rate of 1.19%. The median age in India for year 2016 is 27.6 years and more than 65% below the age of 35. It is expected that, in 2020, the average age of an Indian will be 29 years, compared to 37 for China and 48 for Japan; and, by 2030. India occupies 2.41% of the world's land area but supports over 18% of the world's population. In year 2015, approximately 32.7% population was living in urban areas. According to 2011 census, national literacy rate is 74.03% (male literacy rate: 82.14%; female literacy rate: 65.46%), with 22% population living under poverty line and 7.8% unemployment.

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1. Source: http://databank.worldbank.org/data/download/GNIPC
2. Source: http://data.un.org/CountryProfile.aspx?crName=INDIA

India, a subcontinent in itself, Indian market is third largest market according to International Monetary Fund report of year 2008. Indian market is bigger than entire African continent market, and is characterized by market heterogeneity, unbranded competition and poor infrastructure and is radically different from markets of developed world. This offers both opportunities and challenges to marketers. The huge untapped market offers immense opportunity to make profit when developed countries are aging rapidly, however, price conscience customers, driven by faith and competition from unbranded products offer challenges that will be difficult to overcome using marketing theories developed in industrialized nations.

Literature Review

The phenomenon of globalization has changed the way people think, behave and do business. Therefore, to achieve successful outcomes in their marketing strategies, marketers should carefully analyze the intrinsic reasons that motivate consumers to respond positively to these marketing stimuli, and how they make choices. Although consumer decision-making style represents a relatively consistent pattern of cognitive and affective responses, national culture has been proved to impact significantly on individual values and attitudes (Hofstede, 1984), and to have a significant influence on consumer decision-making style (Leo, Bennet, & Hartel, 2005).

Hofstede's (1984) cultural dimensions and Sproles and Kendall's (1986) Consumer Style Inventory are key features of this research to determine how culture influences the consumer's decision-making style. Culture has been referred to as a set of values, ideas, artifacts and other meaningful symbols that help individuals communicate, interpret and evaluate as members of society (Engel, Blackwell, & Miniard, 1993). Hofstede (1991) defines culture as the collective programming of the mind which distinguishes the members of one group or category from those of another. Culture is a learned, shared, compelling, interrelated set of symbols whose meanings provide a set of orientations for members of society. These orientations, taken together, provide solutions to problems that all societies must solve if they are to remain viable (Terpstra & David, 1991).

Despite globalization, people from different nations continue to have their own distinct habits and tastes, their values and norms rooted in their national cultures (Zhu, Quan, & Xuan, 2006). Usunier (1996) found that there is no empirical evidence to show homogenization of tastes or the appearance of universal price-minded consumer segments. Culture is dynamic and is constantly influenced by changes in the environment in social institutions (legal, political, commercial, etc.) and in an individual's own values. The shared cultural priorities in society help shape the social and economic reward contingencies to which people must adapt in the institutions in which they spend most of their time (families, schools, businesses, etc.) to function smoothly and effectively (Smith & Schwartz, 1997). People belonging to a particular national culture are subject to the conflicts and compatibilities between their own value structure and the national cultural priorities, so values and attitudes that are opposed to cultural priorities may be discouraged (Schwartz, 1994).

A major recent context is the growth of emerging economies (Gu, Hung, and Tse 2008; Hitt et al. 2000; Hoskisson et al., 2000). It is estimated that by year 2035, the gross domestic product of emerging economies will surpass that of all advanced economies (Wilson and Purushothaman 2003). Prahalad and Hart's (2002) celebrated paper "*The Fortune at the Bottom of the Pyramid"*, focused on the opportunities associated to the Low Income Group Sections (LIGS) of an economy. Furthermore it argued that market-based approaches should be adopted to address the LIGS (Simanis & Hart, 2008). In Hammond et al.'s (2007) terms, "being poor does not eliminate demand for goods and services". Marketing is "culture dependent" (Sheth & Sisodia, 1999), thus translating strategies and practices from developed markets into emerging markets is not always possible. Particularly, when adopting market-based approaches to address the LIGS, since macro environmental conditions in developing countries are often dysfunctional and consumption habits different from those in advanced markets (Sheth, 2011).

The way forward

With rapid diffusion of education and economic growth, as the emerging economies evolve, the marketers need to contend with their distinctive character and challenge the existing practices, which evolved in industrialized nations. Most emerging economies are highly local and governed by faith driven sociopolitical institutions in which public policy matters. There suffer from poor infrastructural development, illiteracy and high inflation rate coupled with superstitions and social taboos. Most of the competition comes from unbranded but cheap and readily available substitutes. The competition is more on the basis of price and easy availability rather than what brand to buy. Therefore, many established principles of marketing developed and refined in industrialized markets are at odds with ground realities in emerging markets. However, the size of these untapped markets offer immense opportunities to businesses that can offer unique and tailor made experiences to the local customers. This will require basic paradigm change to develop and test new marketing theories.

In recent years, a phenomenon called "frugal innovation" has increasingly and consistently gained traction cutting across boundaries of disciplines, industries and professional domains. Frugal innovation conveys the important idea of innovating under circumstances of resource scarcity thus developing products and services with good enough functionalities. Low-income emerging economies, such as India, are increasingly providing new sources of innovation and thus serving previously underserved customer segments. Frugal innovation can be achieved through low operational costs, low cost raw material or low labour costs, in essence through lowering costs in any part of the process. Sometimes, frugal innovation also involves eliminating non-value adding functions and occasionally frugal product or service innovation incorporate features unavailable in existing products. The most common example of frugal innovation in India is that of Tata Nano car, which is supposed to be low cost, affordable means of family transport. Another example is a portable, ultra-low-cost hand held electrocardiogram machine developed by GE Healthcare in India is used in ambulances in Western countries. Thus it can safely be concluded that developing countries are no longer merely recipients of innovation from wealthy countries. Firms and individuals in developing countries innovate to meet their own needs at a low cost. So today, practitioners of engineering sciences as well as medical sciences, especially in emerging economies, are trying to comprehend this phenomenon and its potential implications for their respective domains.

India has huge English speaking population. Coupled with diffusion of scientific knowledge among masses, India is now recognized as a pioneer for innovations that aim at combining affordability with excellence, cutting across sectoral boundaries. India produces around four lakh engineers every year. Given the size and the rate at which Indian economy has been growing along with unique socio- cultural value system of India, country provides a fertile environment for the development and acceptance of affordable solutions in products as well as services sectors on both demand and supply sides. Indian technocrats are motivated to produce low priced products but with global quality that are readily accepted in a growing economy of 1.3 billion customers that is beset with serious levels of poverty and infrastructural bottlenecks.

If an entrepreneur wants to break into an emerging market like India, it will have to take advantage of the frugal innovations for products, services and processes in order to keep the cost low and thus penetrate bottom of the pyramid. The entrepreneur should to be able to market his distinctive expertise in frugal innovation to the world. At the same time, although globalization has destroyed middle-class jobs in developed economies but it is also creating whole new groups of customers that businesses can serve in emerging economies. The action is in emerging markets, where millions of people have finally escaped grinding poverty and can now afford what is considered a middle-class lifestyle. Every entrepreneur needs to be aware of emerging middle class in India, which is growing exponentially**,** because they affect virtually every business. However, established hubs such as Shanghai and Mumbai are important, but most of the growth will take place in smaller cities, with a population of less than one million people. Your small business could benefit if you take advantage of the opportunity to reach customers who have never had the opportunity to purchase them before. Additionally, the scarcity of your product or service could make it easier for your brand to be seen as a status symbol. In such a scenario, the old strategy of looking at emerging markets as being the same as consumers in developed economies--but just "late adopters" of products already released in richer nations--hasn't held up well. Customizing a product to every market may yield better results.

Conclusions

Today, a singular focus on technology-driven, “high tech, high price” innovations runs the risk of losing the sight of the changing consumer wants even in developed economies, least to say emerging economies. Frugal innovations, with a “high tech, low cost of ownership” approach are the need of the hour. India seems to possess an inherent advantage in creating attractive frugal solutions with global appeal. Frugal innovation can at best provide solutions with economic and social benefits in low income developing economies, coupled with savings in natural resources (materials, energy, and water) simultaneously. There is a large and unsaturated young population in emerging economies, including and beyond India that is driven by aspirations. This creates a unique opportunity for Indian firms to offer new and affordable solutions, possibly in collaboration with global firms. While high volumes can compensate for thin margins, collaborative development can lower the associated development costs and risks. Collaborations can produce win-win results for all parties concerned. Products that succeed in a lead market like India can be reasonably expected to have a large potential in other emerging economies with similar socio-economic conditions.

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