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Effective Business Strategies of Multinational Corporations in an Emerging Market Economy

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The success of global business organizations depends upon the utilization of opportunities unleashed in the emerging markets of the world. There was a time when *multinational corporations* (MNCs) were complacent and earned enough surpluses for their commanding positions in developed and other selected countries. Emerging markets provide ample opportunities in business, as they have a large demand base of various products along with large populations who have increasing purchasing power. The emerging markets have become known as suitable and reliable suppliers of a wide range of goods and services.

A large number of global players are also emerging from these markets, forming a new breed of global organizations. Examples of these companies are Haier of China, Acer of Taiwan, Tata Steel or Mittal Steel of India, and Embraer of Brazil. The opportunities in these emerging markets are creating an environment of business where skillful manpower and other logistics support are available. This movement is occurring in countries like India, China, Brazil, Mexico, Indonesia, and Turkey. Malaysia is experiencing significant development in many ways. Despite larger economic potential, the MNCs and other global organizations find various obstacles in emerging markets. The organization has to approach alternative strategies in order to thrive successfully in an environment of emerging markets. Here we shed some light on what should be the element of an ideal strategy of business of the MNCs in an emerging market.

What is an Emerging Market?

Antoine W. Van Agtmael of the International Finance Corporation defined an emerging market economy (EME) as being characterized with low-to-middle per capita income. Such countries constitute approximately 80% of the global population and represent about 20% of the world's economies (referenced by Reem Heakel in the *Investopedia Newsletter* dated July 30, 2003).

Countries whose economies fall into this category of EMEs are usually considered emerging because of their developments and massive reforms. Sometimes big and small countries are lumped together as EMEs. China is deemed as one of the world's economic powerhouses; it is lumped into the category alongside much smaller economies like Tunisia. Both China and Tunisia belong to this category because they both have embarked on economic

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development and reform programs and have begun to open up their markets and "emerge" on the global scene. EMEs are considered to be fast-growing economies.

One key characteristic of the EME is an increase in both local and foreign investment (portfolio and direct). A growth in investment by a country often indicates that the country has been able to build confidence in the local economy. Moreover, foreign investment is a signal that the world has begun to take notice of the emerging market, and when international capital flows are directed toward an EME, the injection of foreign currency into the local economy adds volume to the country's stock market and long-term investment to the infrastructure.

The emerging market economies are different from developing countries. The emerging market has high potential for growth while *less developed countries* (LDCs) have limited growth potential. However, emerging markets in many cases contain weak physical infrastructures in regard to communications, transportation, electricity and ports, road network, and railway connections.

There may be significant variations in the quality of infrastructure across emerging markets. *The Wall Street Journal* commented that in India it can take 6-12 weeks to deliver products from India to the United States while Chinese exports can move from the factory floor to U.S. stores in as little as 3 weeks (Bellman, 2004). China invested huge sums in infrastructure development in the late 1990s to improve surface transport. India has recently started restructuring its physical infrastructure with a national highway project, airport modernization, and the rebuilding of new ports.

The Need for a Clear Strategy in an Emerging Market Economy

Due to the vast expansion of many of these emerging countries, communication sometimes becomes cumbersome. Bertelsmann is a German publishing company who runs a book club through a joint venture with China. The Chinese postal system, however, has an inability to deliver bulky packages of books. To deliver the books, the company uses a type of cart pulled by a person called a cycle rickshaw. The company does not expand memberships; rather, they serve the existing members in the city to retain business locally. Here the strategy is to serve the existing customers as effectively as possible. Despite infrastructural bottlenecks, market expansion and distribution can be maintained, as shown by the company Hindustan Lever of India.

The organization has followed a unique strategy in view of infrastructural bottlenecks. The company utilizes rails, roads, and even small boats to reach rural areas of the country. The majority of the population in India lives in rural areas, so the rural market has a large potential. The company has generated a dedicated team of women in sales by offering free sales training and organizing self-help groups to promote the company's products in rural areas. The women go door-to-door in rural areas to sell products. Hindustan Lever Brands are almost household names in India.

ITC Ltd., another MNC operating in India, has been engaged in agricultural product business and marketing. They have christened its rural development initiative as e-Choupal. It is a village-based organization which has staff members who provide the farmers technical knowledge about farming and ultimately purchase the entire produce from the farmers in respective areas. The total number of presently operating e-Choupals is 6,500. The leaders in this company feel that

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> The immense potential of Indian agriculture is waiting to be unleashed. The common constraints that shackle this sector are well-known fragmented farms, weak infrastructure, numerous intermediaries, excessive dependence on the monsoon, and variations between different agro-climatic zones. These constraints bring their own challenges to improving productivity of land and quality of crops. The unfortunate result is inconsistent quality and uncompetitive prices, making it difficult for the farmer to sell his produce in the world market.

Through e-Choupals, ITC purchases goods from farmers who are willing to sell their product. ITC representatives remain in rural areas to serve with information and knowledge about agricultural technology and pricing. ITC is ultimately able to acquire the products at or more than official procurement price from the farmers. According to a company source:

> ITC's trail-blazing answer to these problems is the e-Choupal initiative; the single-largest information technology-based intervention by a corporate entity in rural India. Transforming the Indian farmer into a progressive knowledge-seeking netizen. Enriching the farmer with knowledge; elevating him to a new order of empowerment.

The e-Choupal delivers real-time information and customized knowledge to improve the farmer's decision-making ability. It helps to better align farm output to market demands: securing better quality, productivity, and improved price discovery. The model helps aggregate demand through a virtual producers' co-operative. The process helps facilitate access to higher quality farm inputs at lower costs for the farmer. The e-Choupal initiative also creates a direct marketing channel, eliminating wasteful intermediation and multiple handling, thus reducing transaction costs and making logistics efficient. The e-Choupal project is already benefiting over 3.5 million farmers.

Within the next few years, the e-Choupal network will cover over 100,000 villages, representing 1/6th of rural India and will create more than 10 million e-farmers (i.e., farmers depending on the e-Choupal for their function). For villages that have inadequate power, ITC will use solar power batteries so the e-Choupal can still function. The company has used solar power instead of electric power, which has limited availability in some marginal areas of India. For a successful business venture a MNC should adopt a flexible strategy in an emerging market that is suitable for the environment of the country.

We see the MNCs approach various suitable strategies to utilize their potential in emerging economies. The example of Coke in the Indian market serves as another case in point. After its reentry in India in the 1990s, Coke did not make much headway in establishing itself with its global brand image. The company soon realized that acquiring an Indian brand was necessary to strengthen its existence. Coke purchased "Thums Up," a popular Indian brand in the Cola industry. Coke later promoted Thums Up as its flagship brand in the country. Presently, Thums Up accounts for 25% of market share in the beverage market. Through this example we can see the prudence of a MNC who strengthened its position by purchasing a popular brand in an emerging country.

The U.S. brewery Anheuser-Busch has increased its stake in China's competitive beer industry with its largest brewer, QuingDao, to strengthen its position in the country. While many international brands have left the country, Anheuser-Busch has been able to maintain its existence there, through a down to earth, flexible, and prudent approach. Another brewery, SAB

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Miller of South Africa, offers 20 different local brands in China and maintains a lively existence there. The brand xtrategy for SAB Miller has helped enormously to maintain its market share in an emerging market like China. The consumers in emerging markets have a great extent of brand loyalty to local brands. MNCs must employ a specific, flexible strategy in order to be successful in an emerging market. As a result the consumers in emerging markets will have purchasing power due to tremendous growth of income.

The Ingredients of a Meaningful Strategy

The strategy of successful champions in EMEs offers an excellent scope of analysis which can act as a reliable guide to others who also want to take advantage of opportunities in the emerging markets. These strategic moves enrich the techniques and literature of global strategic management. A significant part of the revenues of these global players come from the emerging market itself. Innovative strategies pay them rich dividends, as in most cases shown, the successful companies have an understanding of the emerging market scenario in which they are operating. They understand the chemistry of markets and consumers' psyche in the host country. In view of their understanding they target a broader market instead of a fortunate few. They build up significant distribution channels with a highly developed distribution strategy, to reach a significant segment of the population. In the process they aimed for brand building, establishing their reputation, and creating an image that finely blended their global strategy with local consumers. By virtue of their prudence and advanced strategic techniques, companies like Unilever, Coke, Pepsi, and Gillette have been remarkably successful in emerging markets.

In order to be successful in an emerging market the MNCs must understand the consumer's psychological trends and their choice pattern. There are rapid changes in the consumer's preferences and technological situations in an emerging market. The technological changes create rapid strides in the markets. The new initiatives are encouraged and welcomed in this changing level of technology. New opportunities help to create many advantages for global as well as local organizations.

A major opportunity where MNCs can capitalize is through the cell phone industry. There is currently a rapidly growing mobile market in China and India. Customers in many parts of these countries have waited for land lines, but due to poor infrastructure many have still not received one. However, the mobile phone revolution has given a new opportunity for the consumers of rural areas as well as MNCs. Cell phone companies such as Motorola, Nokia, and Samsung have made huge businesses in India and China. Nokia has already established a manufacturing unit in China and will launch another unit in India.

The same is true of information technology products. In India there is a huge demand for computer and other allied products that an MNC can supply. When the Government and other large companies become involved in the development of infrastructure involving information technology, huge demand is created for these products of MNCs. Intel, IBM, Microsoft, and many others are also a huge success in India, China, and other emerging markets.

Another condition for the success of MNCs in an emerging market requires the marketing to be down-to-earth in planning and promotion. Hindustan Lever sells many products in the Indian market which its parent company Unilever does not sell. Regarding the product development and pricing, an MNC should not forget lower-income consumers. The product pricing should be low, and the margin of profit should be reasonable. An increased sales volume should be sufficient to outweigh margin problems. Here the typical principle of higher margin of

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the MNCs pricing will not work. The product development strategy should be pragmatic and realistic. A new entrant in an emerging market should not forget that customers are more price sensitive than quality sensitive. A little modification in product design can create a formidable change in the performance of a product.

A local detergent product in India called Nirma was priced low and accessible to consumers because of its budgeted advertising and handy packaging in sachets instead of bulkier boxes. The company posed a tremendous threat to Surf, a product of HLL (Hindustan Lever Ltd). Poorer consumers were now getting detergent at a lower price. But HLL immediately changed the packaging of Surf and introduced its low cost detergent product wheel, which was a successful venture.

The Unilever Group followed a similar strategy in Brazil and Argentina by introducing low cost products while changing the packaging at the same time. During the Argentinean economic crisis this strategy paid rich dividends to the company by introducing a low cost product through changing the packaging of soaps, shampoo, and detergents. Where many organizations have to close production during a recession due to uneconomic return, Unilever was able to pull through in Argentina.

As far as pricing strategy is concerned there also remain some challenges. Some organizations charge uniform prices making adjustments for currency fluctuations and exchange rate changes. However, many times these strategies do not work satisfactorily as there are variations in purchasing capacity in various sections of communities in emerging economies. The better strategy seems to follow a pragmatic approach by bringing changes in packaging, diversifying the product, or introducing a low-cost variety product.

In many cases MNCs do not understand the business environment in an emerging country. For this reason they cannot open branches in the respective emerging economy. To resolve this crisis they opt for joint ventures with local companies. In that scenario practical decisions can be made concerning pricing strategy; the MNCs can use the distribution channels of the local company in the emerging economy. The joint venture in many cases may be a costly affair, but it enables the MNCs to penetrate into the emerging markets. The Timex Watch Company entered in India with Titan, and Procter & Gamble set up a joint venture with Godrej. Now these joint ventures have ended, but both of these companies have a lively existence in the Indian market. For entry organizations to be successful, they must identify mutually acceptable cooperation matrices so the synergies can be integrated into the strategic performance of the organization. Joint venturing may also be helpful in bypassing stringent rules of the emerging markets with respect to foreign investment.

The global economic situation has reached a stage where emerging markets will provide attractive opportunity of business. The MNCs have to utilize these opportunities in order to maintain lively existence in the global arena. Though doing business in emerging markets contains risk and uncertainty, these hazards can be avoided if a proper strategy is adopted. With a suitable strategy an additive business venture will be possible.

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