Rethinking Marketing Programs for Emerging Markets

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Abstract

We point to a fundamental inconsistency in the emerging market strategies of multinational firms. On the one hand, they seek billions of new consumers in the emerging markets of China, India, Indonesia, and Latin America; on the other, their marketing programs are scarcely adapted for these markets. The result is low market penetration, low market shares, and poor profitability. These multinationals are trapped by their own devices in gilded cages, serving the affluent few and ignoring the potential of billions of new consumers that attracted them in the first place. In this paper, we propose that, in order to attract billions of new consumers, the marketing programs of multinationals need to be rethought from the ground up. We identify three key factors that characterize emerging markets: (1) low incomes, (2) variability in consumers and infrastructure, and (3) the relative cheapness of labor, which is often substituted for capital. We draw on numerous case studies from around the world to illustrate how to incorporate these realities into marketing programs. We conclude with a discussion of the implications of such an approach for the multinational's core strategic assumptions.
Keywords: Marketing, Emerging market consumers, Consumer Behavior, Multinationals

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1.0 Introduction

Lured by the prospect of one billion breakfast eaters, Kellogg, the U.S. cereals giant, ventured into India in the mid-1990s. Three years after entering the market, sales stood at an unimpressive $10 million. Indian consumers were not sold on breakfast cereals. Most consumers either prepared breakfast from scratch every morning, or grabbed some biscuits with tea at a roadside tea stall. Advertising positions common in the west, such as the convenience of breakfast cereal, did not resonate with the mass market. Segments of the market that did find the convenience positioning appealing were unable to afford the international prices of Kellogg's brands. Disappointing results led the company to re-examine its approach. Last year Kellogg finally realigned its marketing to suit local market conditions: they introduced a range of breakfast biscuits under the Chocos brand name. Priced at Rs. 5 (10 U.S. cents) for a 50-gram pack, and with extensive distribution coverage that includes roadside tea stalls, they are targeted at the mass market and expected to generate large sales volumes.

Like Kellogg, many multinationals rushed in to emerging markets over the past decade, agog at the potential of billions of new consumers who had been liberated from planned economies and protectionist barriers. But as the initial euphoria wanes, there is a growing realization that the billions of consumers have not reciprocated the multinationals' embrace; that local competitors are stronger than expected; and competition for the top tier of the market is fierce, as major players from around the world compete for the same limited pie. Multinationals' stance is rapidly evolving from one of "exploration," "investment," and "establishing a beachhead," to more prosaic reasons such as "generating a return," "growing long term sales volume," and "building a dominant position." Local subsidiaries are being called to account, and losses that may earlier have been viewed as investments

in market building, are no longer tolerated. Local operations now realize that the three to five percent of consumers in emerging markets who have global preferences and purchasing power no longer suffice as the only target market. Instead, they must delve deeper into the local consumer base in order to deliver on the promise of tapping into billion-consumer markets.[1] This calls for a shift in emphasis from the "global" to the "local" consumer, and from globally standardized to locally adapted marketing programs.

Most multinationals have long resisted targeting the local consumer, preferring instead to transplant offerings that were developed for their traditional developed markets.[2] Three reasons are often cited for the reticance to localize. First, it is argued that the mass market any single emerging economy is not large enough to justify the effort and cost of localization. Second, multinational managers rationalize, emerging market consumers are growing more affluent by the day and are becoming more like their affluent-market counterparts in terms of preferences and purchasing power. As a result, they argue, they are better off offering globally standardized products and waiting for the consumers to evolve towards these. Finally, it is argued that to adapt to local market conditions in every emerging economy will undermine core assumptions about standardization that are fundamental to the success of multinationals. These are powerful arguments, but they do not stand up to scrutiny.

That emerging markets are considered small is a self-fulfilling prophecy. Products and programs transplanted from affluent markets only appeal to the affluent elite: no more than five per cent of the population. Delving deeper into the consumer base to establish mass-market positions would create the economies of scale necessary to justify localization. And localization along characteristics that are common across emerging markets, allows the costs to be spread over much larger volumes. Emerging market veterans such as Unilever, Colgate Palmolive, and South African Breweries have amply demonstrated the viability of mass markets in emerging economies, as well as the benefits of rapidly transferring knowledge gained in one emerging market to others.

The second argument, that emerging market consumers are rapidly becoming more like their affluent market counterparts, is true. But the rate of change is not as rapid as contended. In most emerging markets, the mass market will remain poor well beyond the current planning horizons of most multinationals. And even as they grow more affluent, it is far from certain that Chinese and Indian consumers' preferences will converge with those of Europeans or Americans. It is as likely that they may retain idiosyncratic local consumption patterns, driven by cultural norms. A better strategy for any serious emerging market player is to understand and cater to local consumers' current needs, and evolve with them, as they grow more affluent.

The final reason offered is that localization is counter to core assumptions about global standardization. For example, at the marketing level, conventional wisdom for developed markets has it that successful firms fragment the market into ever finer segments, rapidly develop and deploy innovative new products, cajole and co-opt powerful distributors to gain access to consumers, and position their brands to exact premium prices for their offerings. These practices are so central to the strategy of many developed market companies, that they are embedded in the culture of these organizations. Replication of these practices across international markets is considered key to multinationals' success. Yet, conditions in emerging markets challenge these assumptions and call for very different marketing programs.[3] Can multinationals take advantage of the opportunities afforded by the mass markets of emerging economies without forsaking the presumed bases of their success in developed markets? We suggest that the initial difficulties faced by many multinationals as they have entered emerging markets can be ascribed to attempts to transfer, without translation, their conventional marketing practices.[4] Multinationals can choose to maintain their standardized approach only at the cost of being bit- players in emerging markets.

Our objective in this article is to demonstrate how the emerging market environment calls into question received marketing wisdom, and to draw lessons from companies that have designed marketing programs from the ground up. Specifically, we look at three fundamental characteristics

of emerging market environments: (1) low per capita income and its impact on consumer behavior, (2) immense variability in consumers and infrastructure, and (3) relative cheapness of labor, which is often substituted for capital by both companies and consumers. These characteristics have profound implications for the conceptualization and implementation of marketing programs. We organize our discussion of the effects of each of these fundamental differences around the central pillars of marketing: segmentation and the key program ingredients of product, price, distribution, and communication. Figure 1 summarizes the framework and the main arguments.

2.0 Low Incomes

Multinationals bring to emerging markets not just their products, technology, and skills, but also implicitly, their understanding of market structures from developed-country contexts. Assumptions about the similarity of consumer preferences and buyer behavior, segments, and arguments about scale economies justify thewholesale import of marketing programs from developed markets. But these marketing programs are not matched to the needs of the market.

2.1 Coarse Segments that are Difficult to Reach

At the root of the mismatch are fundamental assumptions about market segmentation. The fine-grained segmentation of developed markets is predicated on the low costs of and high returns on segmentation. Take the example of soap brands. In developed markets the hundreds of brands on the shelf offer a vast choice of finely differentiated benefits on dimensions such as fragrance, freshness, skin type, naturalness, softness, gentleness, lather, anti-aging, and many others. Segmentation at such fine levels is expensive in terms of product development, branding, and distribution costs. These costs are justified if consumers are both able and willing to pay for specialized products, which they perceive to better meet their needs. But the mass market in emerging economies is unable to afford this level of segmentation. Segments there are far coarser than those to which multinationals are accustomed. In Indonesia, 88% of the soap market is classified as “regular” soap, with another 11%

accounted for by deodorant soap, and the remaining 1% is moisturizing soap. The average price of soap sold in Indonesia is less than one third of that in the United States.

The fine level of segmentation also assumes that market segments can be easily reached through differentiated communications, targeted at different audiences. Targeted media that allow fine segmentation are simply unavailable in many emerging markets. Consider the example of magazines: there exist about 18,000 magazine titles in the United States for a population of 250 million. In contrast, in Brazil, a country of 150 million, there are fewer than one thousand magazines and, in India, a country of one billion people, there exist just over 300 magazine titles. The lack of narrowly focused media limit the ability of marketers to segment their markets, and increase the effective cost per hit of advertisements. A smaller proportion of readers of any given title is likely to be in the target market for a given product.

2.2 Basic, Functional, Long-Lasting Products

Some local and international firms have amply demonstrated that through well targeted, indigenously developed, and locally produced products, mass markets can yield serious profits. One lesson from these companies is that rapid new product development and deployment, continuous product innovation, and accelerated obsolescence that are part of the competitive apparatus in developed markets, are unsuited to emerging markets. Here, consumers dislike products that evolve too rapidly, making their recent purchases obsolete. Instead, the need is for basic, functional, long lasting products. The Volkswagen Beetle remained the largest selling car in Brazil long after it had been phased out of the affluent markets, and despite competitive assaults by other manufacturers with newer models. The largest selling car in China is still the Volkswagen Santana, a model that was phased out of developed markets 15 years ago. These cars are known to be dependable workhorses that can be easily repaired when they break down, with readily available and inexpensive spare parts.

2.3 Price Logic Dominates

2.3.1 Reverse PPP

Prices need to be established in the context of local consumers' purchasing power, rather than in relation to international standards. Purchasing Power Parity (PPP) exchange rates estimate the value of a currency in terms of the basket of goods that it buys (compared with the cost of a similar basket in a reference country and currency) rather than in terms of the existing market exchange rates. By this measure, most emerging market currencies are severely undervalued relative to hard currencies, meaning that they actually buy more than one would expect, given the market exchange rate. International firms are attracted to many emerging markets precisely because of the size of the market in PPP terms. One firm found, for example, that in China the number of consumers in the $10,000 to $40,000 income range is less than 3 million at market exchange rates, but over 80 million at PPP rates. But firms often fail to recognize that this large potential market is only accessible if product prices are established relative to local purchasing power rather than by converting international prices at market exchange rates. In other words, international firms need to work backwards from the PPP numbers to price their products. The practice of using market exchange rates translates into overpriced products, making them accessible to only the wealthiest. For example, the PPP of the RMB in China is estimated at close to 4 to the US dollar, while the market exchange rate is over RMB 8 to the US dollar. A product that sells in the United States for $10 will be priced using the market exchange rate at RMB 80. In reverse PPP terms, this is the equivalent of pricing the product at $20. Firms cannot have it both ways: expectations of large PPP-based markets, with products priced using market exchange rates.

South African Breweries (SAB) is one of the rare foreign breweries that is profitable in China. SAB's approach to the China market has been markedly different from that of the fifty other international brewers operating there. SAB brews and sells local brands of beer, has consciously targeted the mass market, and has avoided the crowded premium urban segments. The price of its

brands is up to 70% lower than that of international brands such as Budweiser or Carlsberg. But SAB's long term strategy of building market share is paying off. Despite its limited reach, which currently covers less than five per cent of the market, it is the third largest brewer in China. It has a dominant market share, in every provincial market in China, in which it competes.

2.3.2 High Savings Rates

High savings rates, too, confound multinationals' expectations of market size. A common assumption is that high savings rates in emerging markets stem from the lack of purchase options, but that once firms introduce consumption choices, savings will give way to consumption. While this is true to some extent, the rate of conversion from savings to consumption has been slow. High savings rates are due to the lack of an institutionalized social net (unemployment insurance, retirement and disability benefits, etc.). This encourages what in the west is called a "depression era mentality," that discourages profligacy. People save for a "rainy day" when they may be laid off, for retirement, for medical expenses, and for family obligations. Often, these social and family obligations for savings are driven by strong cultural norms. Consumption options do not easily compete with these reasons for saving.

2.3.3 Volumes Drive Profits, Not Margins.

Strategies that favor thin margins and rely on large volumes tend to succeed. Pricing logic needs to dominate marketing programs and drive product, packaging, distribution, and communication decisions. Unilever's Lifebuoy brand of soap, popular in Africa, India, and Indonesia is priced low and made using inexpensive local ingredients and packaging material. By volume, Lifebuoy is the largest selling brand of soap in the world.

Large volumes can make even trivially priced products profitable. Cadbury's knows that Indian consumers are willing to pay about one cent for an impulse purchase candy. The company delivers packs of these candies to retailers who then break the bulk and sell the candy by the unit. Cadbury's international managers question why their company should spend time, effort, and money

selling products that retail at one cent. But in this market, it is the enormous volumes, not the margins that drive profitability. If 10% of the population were to buy just one candy a week, annual sales would exceed $60 million. An added advantage is that the inexpensive candy maintains a shelf presence for the brand and provides an entry-level item that converts some consumers on to higher priced and higher margin products.

2.4 Distribution: Trade Marketing, One Store at a Time

2.4.1 International Retailers are Not the Solution

In contrast to the highly concentrated retail and distribution industry in developed markets, the retail trade in emerging markets is extremely fragmented. While major international retail chains such as Ahold, Carrefour, Nanz, Metro, and Walmart operate in many emerging markets, they have yet to develop a retail format that has mass. Overall, chain stores account for less then 3% by value of the retail market in China.

Multinationals sometimes rely on these chains as their primary channel. But, it is unlikely, that chains will provide access to mass markets. High population density, small homes with little space for storage, lack of refrigeration, and low automobile ownership means that consumers buy daily and locally. As a result, retail outlet density has to be very high. Retail formats from developed countries cannot deliver economically, under these conditions. Therefore, foreign distributors cannot be the sole pillar of any mass-market distribution strategy.

2.4.2 Building a Multilayered Distribution System

At the same time, using the small independently owned stores poses a serious challenge to many international firms, as they lack the expertise to deal with a fragmented trade. It is estimated that there are 9 million small independently owned grocery shops in China that have limited working capital and, typically, occupy fewer than 300 square feet. To access even the first tier of these outlets, and to establish a brand presence on the shelf, large, dedicated sales forces, and large amounts of working capital are required. Beyond the first tier of retail outlets, many companies use multiple

levels of wholesalers and distributors to capture shelf space one store at a time. The multilayered distribution channel of course puts a large distance between mass markets (especially rural markets) and manufacturers, impeding learning and marketing adaptation. Notwithstanding the challenges, some international firms, that have had a long presence in emerging markets, have successfully developed effective distribution systems. Unilever's distribution network in India, which provides it with a formidable barrier to entry, serves over 800,000 retail outlets directly, and relies on wholesalers and distributors to reach another 3.5 million.

2.4.3 Channel Power

Despite being fragmented, however, the trade has considerable power. Store formats do not allow consumers to browse. Typically, the consumer interacts directly with the retail salesperson (often the owner), whose recommendations carry weight. The owner's relationship with consumers is based on an understanding of their needs and buying habits, and cemented by the retailer extending credit. These relationships give the trade tremendous clout in brand recommendations, making trade marketing an essential element of any manufacturer's program. Building relationships with a fragmented trade requires an understanding of their interests. For example, it is counterproductive to push inventory on them, given their tight working capital positions. Rather, successful manufacturers creatively develop new revenue activities for the retailer. United Phosphorous Limited (UPL), an Indian crop protection company, realized that in its rural markets small farmers were not applying pesticide at all, or applying it inappropriately due to the lack of application equipment. The capital cost of the equipment (mounted pumps and dispensers that cost up to $3000) placed it out of reach of small farmers and most rural retailers. UPL designed a program in which it arranged for bank loans for its rural retailers to purchase application equipment, and demonstrated to these retailers the additional revenue possibilities from renting this equipment to small farmers. The result was an added revenue stream for rural retailers and additional sales of pesticides for UPL.

2.5 Communication: Selling Users and Non-Users on Product Benefits

Lack of focused media creates coarse segments comprised of diverse consumers. In this environment, broad-based brand positions that are likely to appeal to a variety of people are more cost-effective than finely differentiated ones. Broad-based positions often need to be targeted to consumers who have not previously consumed the product or who are unfamiliar with the benefits of the product. For example, offering the benefit of a shampoo-and-conditioner-in-one is of little relevance where consumers have never used conditioner, or for that matter, shampoo. The task of communication is to position these products on the basis of broad-based consumer needs. Kellogg, for example, has developed a "nutritious breakfast" positioning in India, based on research on school children that shows they are not getting their recommended daily doses of some ingredients.

Once the brand positioning is established, the communication focus shifts to increasing the low rates of product use in emerging markets. A key communication decision, therefore, is whether to target existing consumers to consume more, or to draw non-consumers into the market. Typically, multinationals choose to target existing consumers. International brewers in China, for example, have chosen to focus on the Shanghai and other urban markets where per capita consumption is already high. The reasoning is that it is easier to convince an existing beer drinker to have another beer, than to convert someone who has never drunk beer to try one. The existing product portfolios of multinationals, however, often drive this reasoning. It is easier to sell more of an existing product to current consumers than to develop new products and brands to appeal to non-consumers. But some multinationals are not averse to seizing local opportunities. Just as Kellogg realized that biscuits were the way into the Indian consumers' breakfast diet, Coca-Cola has found that to gain share of throat in China and Russia, products that fit with local consumption habits were required. The company has introduced fruit-flavored tea in China and low priced carbonated fruit flavored drinks in Russia.

3.0 Variability

Challenges due to low incomes are compounded by variability among consumers and in the infrastructure. Consumers in Indonesia, China, and India are diverse along cultural, religious, and linguistic dimensions, but in this respect, these continent sized countries are no different than, say, Europe. More specific to emerging markets is variability of income and, super-imposed on it, variability in income flow, which arises from the different pay schedules: from hourly or daily wages, to monthly paychecks. The sharp urban-rural divide is correlated with income differences, with urban areas containing islands of prosperity. The second source of variability is the variability in the transportation, telecommunications, power, and financial infrastructure in emerging markets. A delivery by road may take anywhere between one day to three days, over a distance of 200 miles. A rainfall can throw the telephone infrastructure into chaos. Manufacturers often generate electricity in-house because the grid is subject to frequent power outages. A bank check may clear in three days, or it may take several weeks.

3.1 Segmentation: Income and Income Flow Variability

3.1.1 Income Variability

Large disparities in consumers' incomes imply the existence of multiple segments with very different levels of purchasing power. Segments that vary in income allow some savvy firms to create innovative opportunities. The local distributor for Akai in India, Baron International, realized that the market for new television sets was primarily urban. However, there was considerable inertia when it came to replacing a working television set of a previous generation. But Baron also knew that there existed a market, primarily rural, for used television sets. The company instituted a trade-in scheme that linked urban retailers with those in rural areas. Rural retailers purchased traded-in sets from urban dealers. Urban consumers got something for their old TV sets, urban retailers made their margins from selling the traded-in sets, rural retailers made a profit on used TVs, and rural

consumers were offered television sets they could afford. Baron's sales increased 1500% over three years, making it the most profitable firm in the television business.

3.1.2 Income Flow Variability

Superimposed on the dimension of income variability is variability in income flow. A significant proportion of the working population in emerging markets is paid daily wages, a practice practically non-existent in developed markets. Daily wage earners tend to have little stock of money, only a flow. Consequently, they tend to make purchases only to meet their daily needs, and have little capacity to build inventory. The marketing implications are far-reaching. Not only are pack sizes, and price points affected, but it turns out that consumers' trade-off purchases across a much wider array of product categories. As a result, the nature of competition for any given product is much broader. A manufacturer of soft drinks competes not just with other soft drink manufacturers, but with a broad set of purchases that the consumer considers 'treats.'

3.2 Product: Design and Package for Variability

Variability of the infrastructure is tangibly manifest in the quality of products that arrive on the market. They have been through a sourcing, production, and delivery system that at every stage was subject to non standardized treatment. Delivering on the central promise of branding, consistent quality over time, is a difficult task in such an environment. But it is precisely this variability in the environment that puts a premium on brands that *are* able to deliver consistency. Marico, an Indian edible oil company, has found that rural consumers in the interior of India willingly pay a reasonable price premium for branded cooking oil, over commodity oil, because they are certain of its consistent quality. Unbranded products are often adulterated and of uncertain quality.

In order to deliver consistent quality, products need to be designed to cope with variability. Typically, products from developed markets are designed for fairly standardized usage and handling conditions, and do not tolerate wide environmental variance. For example, washing machines in emerging markets need to be designed for power and water outages. Whirlpool found that, in India,

its machines needed to be designed to restart from the point in the washing cycle where they had left off when the power and/or water was interrupted, rather than return to the start as they are designed to do in developed markets where uninterrupted power and water supply are taken for granted.

Variability in consumer incomes and income flow requires a product portfolio that addresses the needs of different segments without adding to costs. Offering a variety of pack sizes at different price points is one solution. Cooking oil, for example, is sold in single use sachets of five ml for the daily purchaser, as well as in large 10-liter containers. But a variety of pack sizes can also have unforeseen consequences. For example, if the family-pack size is priced at a sufficient quantity discount over smaller packs, enterprising street traders will purchase the large pack and retail it in loose form. Though, this form of informal retailing allows greater market penetration, it also means that the company can loose control over the quality of the product, brand presentation, and pricing. One solution is to price the different pack sizes to discourage unintended arbitrage, i.e.; quantity discounts cannot be large.

3.3 Price: Don't Price Promote – Saturate Price Points

In an occasional effort to capture volume sales, multinational brands use price promotions. Often, such price promotions yield dramatic, if temporary, sales increases. These large volume increases reveal a potentially large market that remains untapped, just below the actual price points. To penetrate this market and generate sustainable volume sales, a permanent product entry at the lower price point is required. Failure to recognize the potentially huge market that lies below the surface of international price points can even place the premium, branded business at risk. By the mid-1990s Sony and Matsushita had captured 75% of the top end of the Chinese market for televisions with sales of 1.5 million units. But this left the door open to local manufacturers Changhong, Konka, and Panda who achieved significant economies of scale by catering to the mass market. Together these manufacturers sold over 5 million units. [5] They then used their strong position to attack Japanese manufacturers in the higher priced segments.

3.4 Distribution: Brand Assortment and First Movers

Despite similar outward appearances (small owner-run shops, with limited working capital whose primary selling point is the convenience of their location) there is considerable variability in the trade. In particular, urban and rural retailers tend to be run on different principles. In urban areas, these small retailers generally carry a surprisingly wide selection of brands in each product category. They are able to achieve this despite limited shelf space and inventory by rapidly turning over their stocks. Manufacturers and wholesalers make several deliveries every day to these small stores to maintain inventory levels. In this environment, remaining on the shelf, developing a differentiated position, and creating brand loyalty are keys to survival.

In contrast, rural retailers are also less specialized and carry a wider range of products. Since frequent deliveries are not possible, they tend to carry only a single brand in each product category. In this environment, being first on the shelf, and developing a privileged relationship with the retailer is a competitive advantage. Many brands that are first on the shelf become synonymous with the product category, and are difficult to dislodge.[6] Maggi noodles, the brand that created the category of instant noodles in many emerging markets, remains the leader.

3.5 Communication: Diverse and Fickle Audience

Consumers in emerging markets shop daily and have 365 opportunities a year to switch brands, while the weekly purchasers in developed markets have 52. Attempts to reach emerging market consumers even once during the short purchase cycle, to ensure repeat purchase, make point of purchase advertising and trade push indispensable. This requires a significant reorientation in the allocation of funds across media. For example, outdoor advertising accounts for over 7% of all media expenditures in India, while it only accounts for 0.8% in the United States.

Mass media, the mainstay of communication efforts in developed markets, are also less effective in emerging markets. Large proportions of the population live in rural areas, distributed across vast distances in small isolated groups, with limited access to broadcast media. The existence

of a multiplicity of languages (several hundred in large countries), and varying levels of illiteracy complicates the task of communication further. To overcome some of these challenges, Unilever pioneered the concept of the video van. Unilever's video vans travel from village to village screening films in the local language, interspersed with advertisements for Unilever products. The company also provides product usage demonstrations to the captive audience because written instructions on the pack may not be read by consumers who are either illiterate or do not understand the dialect.

Where mass media are used, variability can throw a spanner in the works. On reentering India in the 1990s, Coca Cola decided to invest massively on a Television advertising campaign. It invested in slick commercials, rich in color, with high production values, but the effect was somewhat lost on a market where 60% of all TVs are still black and white.

4.0 Labor Substitution

Labor-saving benefits are fundamental to the positioning of practically every product in developed markets. Dishwashing detergents, prepared foods, and household appliances, all promise the consumer less time and effort expenditures. But labor is cheap in emerging markets, and this leads to trade-offs that would be unusual in developed markets.

4.1 Segments and Segmentability on Opportunity Cost of Time

While the opportunity cost of time is low for the vast majority of consumers, for a small but significant segment, the opportunity cost of time is high. For this small segment, products that save labor might be thought to be attractive. But, segmenting the market on opportunity cost of time is not useful because, in most instances, time can be bought. Richer consumers substitute others' time for theirs, and the market for time-savings is served through inexpensive services rather than products. Premium-priced, non-stick cookware from Dupont have little appeal if consumers who can

afford them generally rely on hired help for cooking and cleaning. In China, Dupont has struggled to expand market share beyond 2% of the market.[7]

This does not mean that the products themselves are not viable in emerging markets, just that they need to be positioned differently. For example, fast food is popular not because it is fast, but because it is trendy. Similarly, washing machines may not have much appeal as labor savers when consumers who can afford household appliances are accustomed to hiring people to do their laundry by hand. But the machines can be positioned as reliable (hired help is often not), or on the basis of performance (machines do a better job). These benefits complement rather than compete with inexpensive labor. Sometimes consumers will both buy a washing machine and hire someone to operate it.

4.2 Product: Substitute Capital with Consumers' Labor

Careful consideration of the value of the various elements of the augmented product marketed by international firms often reveals that the firm's cost of creating some of the benefits offered is higher than its value to the emerging market consumer. Engaging the consumers' time and energy as a substitute can allow the firm to market the product at an affordable price to the mass market. For example, dairies in several Indian cities have opted to eliminate individual level packaging for milk. Instead, milk is distributed through vending machines where consumers bring their own containers to carry the milk home. Similarly, Whirlpool discovered that it was unable to sell its high priced, fully automatic machines in the emerging markets. It was only after it introduced twin-tub machines that were cheaper and utilized the consumers' labor rather than electronics to complete the entire washing cycle that sales took off. Interestingly, due to the fact that these machines had long disappeared in the developed markets, Whirlpool had to acquire the 'obsolete' technology from Korea.

4.3 Price: Make or Buy

Buying decisions depend on consumers' assessments of the value of buying a product versus making it themselves. For example, consumers in developed countries are increasingly buying rather than making what they consume. Buy versus make trends are due to the high opportunity cost of consumers' own time, the economies of mass manufacture, and low transportation costs. With the low cost of time, and the relatively high cost of manufacture and transportation (capital intensive activities) in emerging markets, many products and services can be produced less expensively at home than manufactured goods. Less than 1% of the food consumed in India is pre-processed compared to over 95% in a developed country such as Japan. To motivate consumers in emerging markets, to buy rather than make products, the product or service must be priced competitively with homemade products, or must offer a benefit not easily incorporated in to homemade products.

4.4 Distribution: People Power

Developed markets have clearly moved towards heavily capital-intensive distribution with the introduction of electronic data interchanges, mechanized movement and monitoring of goods, and vending machines that replace salespeople. By contrast labor-intensive distribution remains economical in emerging markets. For example, in emerging markets, Coca-Cola has not invested in vending machines. These are too expensive relative to salespeople. In China, instead of vending machines, the company has experimented with a pushcart program in which salespeople dispense the company's drinks by the single-serve bottle. Sales of two cases (48 bottles) every day at US$ 0.25 per bottle are sufficient to justify the costs of a salesperson. Similarly, in India, almost 10% of Coca-Cola sales take place through fountains, where a salesperson dispenses drinks by the paper cup. Daily sales of as little as 100 cups justify the cost of the fountain and the person employed to dispense the drinks.

Modern retail formats such as supermarkets (e.g., Nanz), hypermarkets (e.g., Carrefour), and discount stores (e.g., Walmart), that substitute capital for labor, have experienced slow growth in

emerging markets. The scale economies of these operations are offset by the high capital costs, and often lead to higher prices relative to small owner-operated stores. The typical 25% to 40% margins taken by international retailers reflect their higher operating costs relative to low-overhead local retailers, whose margins rarely exceed 15% with operating costs below five per cent of retail price.

4.5 Communication: Interactive Customization without Technology

The heavy reliance on mass communication in developed markets is based on the premise that delivering a message through a medium such as television or magazines is less expensive than delivering it through face to face contact. But in emerging markets, the face-to-face method has always been more economical. When Citibank launched its credit card in Asia, it found that in many markets the cost per customer of door-to-door sales was lower than a range of mass media, including magazine inserts, direct-mail, and take-one application forms placed on sales counters.[8] Personal selling also allows for more customized and interactive messages to be delivered to the customer. A characteristic important at an early stage in a product's life-cycle, such as credit cards in Asia at the time, leading to better conversion rates than, say, television advertising.

5.0 Conclusions

The billions of consumers that multinationals seek in emerging economies will remain an elusive target unless these firms are able to develop value propositions that appeal to the mass market. For these firms, it should be abundantly clear that mass markets in emerging countries are unlike any markets they have traditionally served. The emerging market consumers' behavior is molded by low incomes, infrastructural variability, and the unique trade-offs created by the substitution of labor for capital. These consumers are unlikely to respond to marketing programs transplanted from developed markets. Instead, marketing programs need to be built from the ground up. But building marketing programs from the ground up questions fundamental marketing practices that are presumed to lie at the core of the success in traditional markets. The organizational tensions

that arise as firms grapple with this dilemma can be wrenching. Firms will choose to live with the tension if they believe the opportunity presented by emerging markets to be worth the pain. One means of justifying the pain is to abandon the traditional practice of having country-focused strategies, such as a "China strategy" and an "India strategy," and to begin to consider the firm's "emerging market strategy." Framing the issue in this way places the focus on the commonalities across emerging markets and their real potential size. It, thus, enables an accurate assessment of the costs and benefits of localization.

The framework we have presented yields insights into the nature of the localization effort required. First, we show that the segments and segmentation schemes on which multinationals develop their brands for the affluent markets do not fit the realities of emerging markets. We also show that emerging markets, despite their diversity, are less segmentable due to the costs of segmentation, and consumers' unwillingness and inability to pay for the added costs of customized products. Consumers' income variability compounded by infrastructural variability calls for radical adaptation of marketing programs developed for the advanced economies. The substitution of labor for capital creates trade-offs that are unusual in developed markets. These inherent differences are sufficient to justify developing an alternative business model for emerging markets. Traditional business models that rely on innovation, fine segmentation, high margins, and finely tuned branding need to be rethought for emerging markets.

The pursuit of billion consumer markets requires that multinationals identify common factors that impact consumer behavior across emerging markets and design strategies for emerging markets as a group. For such a strategy to succeed, firms need to rapidly transfer learning across these markets. This requires a fundamental mindshift, from viewing emerging market subsidiaries as mere delivery mechanisms for programs developed elsewhere, to learning centers. Viewed in this light, the emerging market debate is naturally a debate about locally adaptive versus globally standardized

strategies. However, the localization-globalization debate is much more pronounced in the context of emerging markets, where consumer behavior is so different, and the future stakes so high.

Figure 1: The Impact of Emerging Market Characteristics on Marketing Programs

	Segments	Product	Price	Distribution	Communication
Low Incomes	• Segments are coarse and diverse because the costs of segmentation are high. Mass media are not finely segmented.	• Products need to be functional, built to last, and basic. Rapid obsolescence is a mistake.	• Large volumes, and low margins drive profitability. Consumers gauge prices in relation to a local basket of purchases.	• Retail distribution is highly fragmented, but nevertheless, powerful.	• Persuade consumers to consume more and non-consumers to adopt the product.
Variability	• Income disparities and income flow variability lead to co-existence of very different market segments.	• Quality consistency is at a premium, and not easy to achieve in a variable environment. Design and package for infrastructural and consumer variability. .	• Price promotions yield large volume gains. But it is worthwhile to launch second tier brands rather than occasional promotions.	• Urban and rural retailers look similar but operate on different principles. It pays to be first in rural markets. It pays to be differentiated in urban markets.	• Creating own channels of communication where no mass media exist to cater to large swathes of the market.
Cheap Labor	• Despite huge differences in consumers' cost of time, the market cannot be segmented on this dimension because time is bought and sold.	• Products can be re-engineered to replace some elements with consumers' labor. Makes the product more affordable to the mass market.	• Consumers' make versus buy decisions drive value perceptions. Competition also comes in shape of home-made products.	• People rather than machines provide a cost-effective means of delivering products to consumers.	• Mass media don't always have a cost advantage over face-to-face customer interaction. Sales forces can be used to communicate product benefits and usage more effectively.

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