One South: Investing in Emerging Markets (B)

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Emerging Market Challenges

- Low average incomes
  - China $3500/y, India $1000/y
  - Consumers have little brand loyalty
- Variability in socio-economic profiles of consumers
  - Cultural, linguistic and ethnic diversity
- Hard to reach large markets in rural areas

THEREFORE:
Large emphasis on **Research and Development** (R&D)
- Unilever Concept Centre, Shanghai

Innovations for Emerging Markets

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Management Principles
- Product Design
- Production Processes
- Distribution Channels
- Sustaining Growth
  - Human Resource Management
- Existing Business Models

Discussion

2. Discuss what kind of innovation strategy can overcome the challenges faced in emerging economies?

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- Frugal Innovation
- Production Process
- Bottom of Pyramid Strategy
- Economies of scale - scale out instead of scale up
- Reallocation of resource - push vs pull model
- Reverse M&A
- Localisation Strategy
- Increase investment in R&D

Discussion

Lessons to be Learnt

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- 21st century will be marked by the dominance of emerging markets.
- Globalisation has accelerated and created strong integration and interdependence between economies in different regions and at various stages of development.
- Combination of large, young, increasingly educated and urban populations with greater levels of disposable income and natural resources is propelling newly emerging markets forward providing emerging markets with investment opportunities.

Emerging Markets

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- Countries that havesome characteristics of a developed market but is not a developed market
- Includes countries that may be developed markets in the future or were in the past.
- May be a nation with social or business activity in the process of rapid growth and industrialization.
- The economies of China and India are considered to be the largest
- Multinational companies in emerging markets are well positioned to deal with the new business environment due to their agility, born of recent experience in adapting to meet rapidly changing market conditions

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Narayana Murthy, Founder and Chairman of India-based Infosys, notes:

"While the US and the European markets continue to be important for us, the Indian market is growing rapidly. The base is small right now, but the growth rates are huge. There are many large software project opportunities in India. Much of it comes from the Government and public sectors — it's the same in China and Brazil. As we move forward we will have a more balanced portfolio between the developed markets and the developing market."

Types of emerging market companies

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The diversified conglomerates

- Diversify their product and customer base
- Enter a firm enters an entirely different market that has little or no synergy with its core business or technology.
- Allows for better adaptation to situations with political and financial risks

eg. Tata Group

State-owned enterprises

- Borrow money from government at subsidised rates while plunging into the global market
- Lower level of productivity than private firm

eg. China Telecom

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#1: Redesigning Products

Considering the needs of poor consumers and working backwards.

India:

- Heart Disease (General Electric)
  - Hand-held electrocardiogram (ECG) that runs on batteries
  - Price reduced from $2000 to $800
- Water Contamination (Tata Consultancy Services - TCS)
  - Water filter using rice husks to purify water
  - Robust, portable and supplies abundant bacteria free water
  - Price: $24 with $4 filter change

These are **disruptive technologies**.

Theory: **Frugal Product Innovation** (or reverse innovation)

- Being sparing in use of raw materials and their impact on the environment
- Tough and easy to use, but not second rate