Marketing to the Bottom of the Pyramid – Opportunities in Emerging Markets

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Abstract

The significance of emerging economies to global marketing, within a context of a paradigm shift of international business is enormous. With more manageable risks, ease of communications and transportation, higher income growth and increasing consumer purchasing power, there are new opportunities for multinational corporations to both sell to and low cost, high quality resources to buy from. However, emerging markets do not consist of one market. They are diverse and can require separate market entry and market development strategies. This paper will look at these opportunities through the lenses of two theories the Bottom of the Pyramid theory and Blue Ocean theory. The Bottom of the Pyramid has been pioneered by Prahalad and London and Hart to identify the potential of emerging markets not only as resource suppliers but as a market. The Blue Ocean theory will be used to see the potential of shifting paradigms in regards to emerging markets to identify a leap in value for both consumers and producers. The purpose of this paper is to show that emerging markets have two separate areas of opportunity for multinational corporations: to buy and to sell.

Key words: Emerging economies, Bottom of the Pyramid, global marketing, China, Asia, market entry strategies, hidden champions, blue oceans

Introduction

In the second half of 1997 the Asian financial crisis began. Most of the Asian Tiger economies slowed significantly in 1998; and at that time critics described the economic miracle that happened there over the previous decades as illusory (Harrison et al., 2000, p 191). These countries are clearly 'developing' countries, but doing so at a faster rate than many of the others. East and South-East Asia have produced the most dramatic examples of emerging economies. Hong Kong, Singapore, South Korea and Taiwan followed in Japan's footsteps, joined by China, Indonesia, Malaysia, and Thailand by the early 1990s. However, with new growth and bounce back from the late 1990s it looks like the economic miracle is continuing.

Another emerging economy area is Latin America; however, the situation here is rather different. Economic gains were made during the 1960s and the 1970s based mainly on export revenues from commodities like oil or coffee. Foreign debts - incurred when commodity prices were high - crippled many of these economies when the terms of trade moved against them. Inflation reached 1,000% in Argentina and currencies collapsed. Since the 1980s, however, there has been a move towards democracy and economic reform, especially in Mexico, Argentina, Chile, Brazil, Uruguay and Peru (Harrison et al., 2000, pp192-3).

The Emerging Economies - Development

No single theory explains why some countries are more developed than others. There are four theories that attempt to explain the different development patterns seen around the world. These are presented by (Harrison et al., 2000, pp 196-9):

- The stages of economic development: Rostow's theory (1960) suggests four stages for development: the traditional society; the preconditions for take-off into self-sustaining growth; the take-off to drive to maturity; and the age of mass high consumption. The theory has been criticised because it compares countries at different stages of envelopment without clearly establishing the reasons for their development. It is also based on the experience of developed countries and takes no account of different cultures and political systems.

- Dependency theory: The focus here is on the developing countries' dependence on rich countries. Many developing countries are formerly colonies which were dependent economically as well as politically. Even after independence, economic ties are difficult to break and this culture of dependence holds development back. The dependency theory recognises two solutions. One is to create policies to alter the balance of power between the rich and poor countries, through bodies such as UNCTAD or by increasing the representation of developing countries at the United Nations, International Monitory Fund, or the World Bank. The second argues for governmental domestic, political and social interventions to promote or to control economic development.

- The neo classical revival: This theory argues that competitive markets, absence of government intervention and the promotion of free trade are the best way for economic efficiency and growth which will promote privatisation, market deregulation and the liberalisation of foreign trade and investment. The theory is the main standpoint for bodies such as the International Monitory Fund, World Bank and World Trade Organisation. Some countries that have adopted such policies have seen success, for example Chile, Argentina and Peru.

- Endogenous growth theory: This is an attempt to explain the importance of internal factors within an economy, which explain why countries develop at different rates. It argues that long-term growth is created by the existence of free market forces and also by investment in infrastructure and in knowledge such as education, research and development, and new technology. This type of development creates economies of scale, making an argument for a combination of market forces and long-term public and private sector investments. This combination should create dynamic forces leading to efficiency, innovation and economic growth.

Growth Markets

There are numerous ways to classify economic growth. Johansson defines three marketing environments as Emerging, New Growth, and Mature based upon features such as tariff barriers, financial motivations, etc. (See table 1)

Table 1 Three Marketing Environments Source: Johansson 2003 p259

	Product / Market Situation		
Feature	Emerging	New Growth	Mature
Life cycle stage	Intro	Growth	Mature
Tariff barriers	High	Medium	Low
Non-tariff barriers	High	High	Medium
Domestic competition	Weak	Getting stronger	Strong
Foreign competitors	Weak	Strong	Strong
Financial institutions	Weak	Protected	Strong
Consumer markets	Embryonic	strong	Strong
Industrial markets	Getting stronger	Strong	Strong
Political risk	High	Medium	Low
Distribution	Weak	Complex	Streamlined
Media advertising	Weak	Strong	In-store promotion

Within those 3 environments he categorises dominant marketing dimensions based on Market Analysis and Marketing Strategy tasks (see table 2)

Table 2 Dominant Marketing Dimensions Source: Johansson 2003 p261

	Product / Market Situation		
Task	Emerging	New Growth	Mature
Marketing analysis			
Research focus	Feasibility	Economics	Segmentation
Primary data sources	Visits	Middlemen	Respondents
Customer analysis	Needs	Aspirations	Satisfaction
Segmentation base	Income	Demographics	Life style
Marketing strategy			
Strategic focus	Market development	Growth participation	Compete for share
Competitive focus	Lead/follow	Domestic/foreign	Strength/weakness
Product line	Low end	Limited	Wide
Product design	Basic	Advanced	Adapted
New product intro	Rare	Selective	Fast
Pricing	Affordable	Status	Value
Advertising	Awareness	Image	Value-added
Distribution	Build-up	Penetrate	Convenience
Promotion	Awareness	Trial	Value
Service	Extra	Desired	Required

New Growth / Emerging Economies
It is estimated that over 75% of the expected growth in world trade over the next 20 years will be derived from the 130 developing and newly industrialized countries Prahalad (2006). There are many ways to classify new growth/emerging economies.

Rostow (1971) classifies countries by stage of economic development where each stage is determined by the cost of labor, the technical capability of buyers, scale of operations, level of product sophistication, and interest rates. Countries in the first three stages are economically underdeveloped.

Cateora (2005) describes the stages per the following UN level of industrialization in order to group countries into three categories:

1. MDC (more-developed countries) Industrialized countries with high per capita incomes, such as Canada, England, France, Germany, Japan, and the United States.
2. LDC (Less developed countries) Industrially developing countries just entering world trade, many of which are in Asia and Latin America, with relatively low per capita incomes.
3. LLDC (least developed countries) Industrially underdeveloped, agrarian, subsistence societies with rural populations, extremely low per capita income levels, and little world trade involvement. LLDCs are found in Central Africa and parts of Asia.

Keep in mind that this UN categorization can be criticized in today's rapidly industrializing economy. Newly Industrialized Countries (NIC) experience rapidly expanding economies and do not quite fit as MDC or LDC. Generally they produce rapid industrialization of targeted industries and have relatively higher per capita income when compared to developing countries. As a result of less restrictive trade practices and free market policies, these NICs attract trade and FDI. Examples include Chile, Mexico, Brazil, Singapore, South Korea, and Taiwan.

Johansson distinguishes between two kinds of NIE (Newly Industrialized Economy) markets. The first group are "relatively rich in natural raw materials but the majority of the people have suffered pain inflicted to equal degrees by authoritarian political regimes and colonial domination". The 2nd group involves countries embracing Western-style capitalism, spurred by multinationals locating export-oriented facilities to access lower labor costs.

One indicator of economic development relies on the level of infrastructure within the economy. Infrastructure (e.g. paved roads, communications, railroads, energy) serve the activities of many industries and are necessary to support production and marketing. (Cateora et al. 2005 p.252). "A marketer cannot superimpose a sophisticated marketing strategy on an undeveloped country. Marketing efforts must be keyed to each situation, custom tailored for each set of circumstances.

As Johansson points out, "distribution channels are few and show low productivity, and communication media are limited in reach and coverage. Marketing research, therefore, rather than focusing on the buyer, is more usefully focused on the feasibility of various marketing activities" Johansson (2003). But keep in mind that the marketing system of a particular country is in a constant state of flux.

According to Cateora (2005), most of the difficulty in estimating market potential in the LDCs is due to economic dualism; the coexistence of modern and traditional sectors within the economy. For example, the modern sector is often centered in the capital city, and has modern airports, hotels, factories and an expanding middle class.

The traditional sector however, contains the remainder (often majority) of the country's population, and the two sectors may be centuries apart in production and consumption. With a population of approximately 1 billion people, the modern sector of 200-250 million demand products and services the same as any developed country. The traditional sector of 750 million (nearly 3x as large as the modern sector) demands items more basic to subsistence – "sugar, coffee, soap, and kerosene".

Why are emerging economies important in the global marketplace?
Kenichie Ohmae (1985) and Poillon (2000) stressed that for most global industries it was necessary to compete in all 3 parts of the "The Triad Market" (United States, Europe, and Japan) since they accounted for nearly 80% of most industries' sales. Since Ohmae's first discussion of the 'triad', it has expanded to encompass North America (NAFTA effect), the European Union (which has expanded to 25 countries), and the Asia Pacific region. It is precisely in large part due to the majority of firms focus on this 'triad' market, and its slowing growth <u>rate</u> (absolute market size is dramatic) that more companies are turning to emerging economies for higher growth rates for sales and profits.

Truly, global competitors need to make this "market" a key factor in their strategies. Conducting business in developed countries is more predictable, risks are better quantified, and the investment climate is more favourable, which for many companies makes expansion in those countries preferable to developing or emerging economies even though competition is usually more intense. Jeannet and Hennessey (2004)

But as discussed further, companies need to strategize on how to address successful marketing in the emerging economies, since 75% of the world's population lives in the emerging economy countries, and the mobilization of technology and capital has increased globalization and fostered a paradigm shift in international business Cavusgil (2002). (See table 5.3 below)

Table 3 Paradigm Shift of International Business Source: Cavusgil 1997 p3

Developing Countries	Emerging Markets
(prior to 2000)	(2000 and beyond)
* High risk for foreign business manageable	* Risks are increasingly
* Economically and technologically backward developed nations	* Higher income growth than
* Consumers had poor purchasing power	* Technologically competitive
* Few opportunities for business purchasing power	* Increasing consumer
large untapped high-quality sources	* Offer many opportunities as markets and low-cost,

Dynamic Legacies
A recent study by the MIT Industrial Performance Center, under the leadership of Berger (2006), defined Globalization as: "The changes in the international economy and in domestic economies that are moving toward creating one world market", and analyzed the impact of globalization on individual firms.

The drivers of these economic changes include:

1) China's opening to the West
2) The Eastern Bloc collapse
3) Increase in market volatility and financial crisis, e.g. W. Europe (1992), Mexico(1994), Asia(1997), Russia(1998), and Argentina (2002)

Drivers #1 and #2 opened dramatic new markets of new consumers and low cost labor, while #3 increased investment risks and the cost of capital. What Berger found was that the management of company "Dynamic Legacies" determined success or failure in the global marketplace. Dynamic Legacies were defined as the "stock of experiences, skills, talents, organizational capabilities, and institutional memories". So firms based upon different legacies utilized different methods to succeed in the global marketplace, resulting in a range of strategies with regard to the production process – i.e. offshoring, outsourcing, etc.

Berger found that there was no dominant model which led to global success: Neither the convergence model derived from theories discussed by economist like David Ricardo thru Paul Samuelson regarding "comparative advantage" and "factor price equalization", nor the "varieties of capitalism" model, Hall and Soskice (2001). The "varieties of capitalism" model predicts that companies expanding globally try to recreate the same types of institutions that they successfully depended upon at their domestic base. The model specifies two types of capitalist systems: 1) Coordinated market economies (Germany, Japan) where resource allocation decisions involve a variety of non-market institutions emphasizing trust between the parties, and 2) Liberal market economies, (US, Great Britain) whereby markets act as the primary medium to allocate resources.

From Ideas to Customers
In the 21st century there has been a major fragmentation of this production system, such that the functions can be "reorganized" or "outsourced", and companies need to create strategies "for selecting which of the steps, from defining a product and delivering it to a customer, should remain in-house versus the functions that will be outsourced – that is, purchased from other firms" Berger (2006).

A related change highlighted by Berger as a result of companies' abilities to divide the production process involves a redistribution of firms' production steps between "home" and "host" locations. Companies can maximize utilization of low cost labor, abundant space, and new customers in foreign countries. Additionally, a networked global supply chain now distributes the production processes across different suppliers and global regions, with a 'mix-and-match' combination of design firms, contract manufacturers, assemblers, distribution channel partners, and retail operators.

Companies can now transmit complex design specifications electronically worldwide nearly instantaneously, and utilize the “enablers” of advanced communication and transportation technologies to disassemble the production process functions and distribute them to vendors virtually anywhere in the world.

Yet corporate home base is where firms have their headquarters. Home markets are usually the MNCs’ largest customer base, and the goods and services a company makes trend toward the demands and needs of its home market. The largest share of corporate assets is held in the home location (Hirst and Thompson, 1999; Poillon (2000). Most R&D is conducted at home also, NSF (2004)

The MIT team recommended the companies maintain only two types of production process functions in-house: activities where they are competitive with global market leaders; and activities which may be important to the development of future businesses. Companies must compete based upon the production process functions in which they retain competitive advantages as a result of their “dynamic legacies”.

Global Focusing

In order to amortize increasing R&D costs (see Bartlett and Ghoshal, (1990); Pearce and Singh, (1992), globally active corporations are responding by attempting to introduce innovations as fast as possible over the widest geographical area. According to Howells and Wood (1993), these firms utilize the strategic options of global switching and global focusing of their international network to meet the requirements of *space-time* compression, Harvey (1989)

Example: According to Zeller (2000), MNCs in the global pharmaceutical industry are reorganizing their production process, and allocating specific responsibilities and tasks to their research centers on a global scale. Three major changes are forcing the realignment:

1) Necessity to generate continuous growth;
2) Exploding costs of R&D,
3) Hugh capital requirements to achieve economies of scale require simultaneous launching in many markets.

Born Global Firms

Born global companies aim at global marketing right from the start. The phrase “Born Global” is used to describe companies that commence operations with a focus on the global markets rather than on the domestic market Burca, Fletcher and Brown (2004, p. 272). In other words, these are companies start their involvement overseas through direct foreign investment at the initial stage (Holstein, 1992; McKinsey and Co., 1993; Nordstrom, 1991; Oviatt and McDougall, 1994).

They are characterised by being small - typically fewer than 500 employees and annual sales under $100 million - and very often rely on cutting-edge technology in the development of a relatively unique product or process innovations. But the most distinguished feature of born global companies is that they tend to be managed by entrepreneurial visionaries who view the world as a single, borderless marketplace from the time of the company's founding (Knight and Cavusgil, 1996, p 12).

According to Burca, Fletcher and Brown (2004, p. 272) those sort of companies offer products and services to small, niche markets and the size of that niche in the domestic market is insufficient to ensure the viability of the concept underlining the product. Therefore, at this stage companies might have to modify products that are not culturally sensitive

The background of the owner of the company has a very strong influence on the creation of born global companies. It could include personal networking, market knowledge and skills, international contacts and international experience. Previous experience and knowledge across national borders open up a possibility for a new business. Often born global firms will seek partners who complement their own competence because of the limited resources. Factors giving rise to the emergence of born global companies and explaining why such companies can successfully enter an international market (Hollensen, 2001, p 67) are the increased role of niche markets; advances in technological process and production; the flexibility and adaptability of small companies; the global network and advances in information technology.

Hidden Champions

Discussion about born global firms will lead to other types of companies known as the hidden champions. Based on a book by Hermann Simon (1996), hidden champions are companies that enjoy high global market shares of 70% to 90%, which no more than a few multinational companies can match, and many of them were global long before the term global was coined, but they strongly prefer to remain hidden.

Simon points out that companies like the Hidden Champions profit from tough conditions such as rigorous cost cutting, restructuring, and transplanting jobs from high wage locations. Another measure of success is market share, particularly popular among Japanese companies. It is important to mention that the hidden champions are not above the market game; they are exposed to competition, market problems and management oversight the same as other companies and some of them will fail in the future.

"Hidden champions" define marketing based on technology, and in a wider sense on competencies. From a competitive perspective the substitute product is not a popular approach with the hidden champion, because they try to make their product as dissimilar as possible from those of their competitors. Hidden champions often objected to their competitors' market definition; instead they see the market definition as part of their strategy. They recognise that almost 51.2% of their profit come of the overseas markets and if they include their exporting activities the figure will rises to more than 70%. Just for example, some of those companies are:

- Hauni: the main producer of cigarette machines, as all the filter cigarette in the world are manufactured with Hauni machine. (nearly 90% global market share).
- Tetra: the main producer of tropical fish food. (over 50% global market share).
- Baader: one of the largest producer of fish processing equipment. (90% global market share).
- Hillebrand: one of the worlds largest wine distributors.
- Webasto: this company is the world leader for sunroofs and auxiliary heating systems for cars.
- Brita: manufactures point-of-use water filters. (85% global market share).

- Gerriets: producer of neutral light and cloths for stage theatrical scrims and decorations. (100% global market share).
- Barth: the world market leader in hops and hops products.

Hermann (1996) mentions that the essential characteristics of Hidden Champions relate to the personality of the leader, level of sophistication, and corporate culture as well as the following:

1) Companies should hold a large market position and high market share if it is not in the global market it is at least in European market. If they not able to identify their market share, they should be able to identify their position in relation to their competitors.
2) Companies must be small or medium in size and unfamiliar to the public generate $1 billion sales revenue.
3) Companies should have low public visibility, thus company made a big name are excluded.

Bottom of the Pyramid (BOP) Marketing

As has been shown emerging markets offer multinational corporations many opportunities. In exploring these further let us look at the bottom of the pyramid. More than 4 billion people, nearly 70% of the total world, are in the Bottom Of the Pyramid (BOP) of the global economic system as defined by Prahalad and Hart (2006), but what is this market? The bottom of the pyramid (BOP) market refers to the enormous untapped potential of markets previously thought of as unreachable or difficult to reach. These markets are often or were often unlinked to the global supply chain and global marketing channels. The lack of development of marketing infrastructure such as communications channels for advertising, distribution channels to supply the market and the low income of this target market made it difficult and many times unprofitable to penetrate this market. However, the bottom of the pyramid market is the world's largest and the accessibility of this market is becoming a reality.

In pioneering this theory Prahalad has identified the following unique characteristics, (Prahalad 2006):

1. There is money at the BOP. Nine countries (China, India, Mexico, Brazil, Russia, Indonesia, Turkey, South Africa, and Thailand) collectively are home to 3 billion people, and represent 70% of the developing world population. In terms of dollar purchasing power parity (PPP) this group's GDP is $12.5 trillion, representing 90% of the developing world – larger than Japan, Germany, France, UK, and Italy combined.

2. Access to BOP Markets. The density of urban areas allows for intense distribution networks. Unfortunately, access to distribution in rural markets is difficult, being denied products and services as well as access to knowledge about availability and usage. There is no single distribution solution.

3. The BOP Markets are Brand Conscious. In particular, aspirational brands are critical. And BOP consumers are also extremely value-conscious.

4. The BOP Market is Connected. Universally, BOP consumers are rapidly exploiting the benefits of information networks, particularly wireless networks (both telecom and PCs). Concurrently, the word-of-mouth spread of good bargains / bad news is very rapid and intensifies brand / value consciousness.

5. BOP Consumers Accept Advanced Technology Readily, in large part due to the fact that they have nothing to forget.

Companies operating based in emerging economies who market to BOP and are now going global have some key advantages such as access to some of the world's most dynamic growth markets and immense pools of low-cost resources, whether it is production workers, engineers, land, oil, or iron ore. These aspiring giants are about much more than low cost. The best of the pack are proving as innovative and expertly run as any in the business, astutely absorbing global consumer trends and technologies and getting new products to market faster than their competitors. Globalisation and the internet are ushering in this "seismic change" to the competitive landscape because they can access the same managerial talent, information, and capital as Western companies. Refer back to figure 5.9 BCG to note the successful companies operating from a BOP type situation

Potential customers at the Bottom Of the Pyramid (BOP) have annual purchasing power parity less than US $1,500. The BOP can not be tapped by just *modifying* current global approaches, but instead must create a *totally new* approach. "A standard western marketing mix offering will not work with this group whose circumstances require a highly customized approach. Buyers at the BOP behave differently not only from their counterparts in developed country markets but also from the upper and middle-income customers in their own societies. For one thing, they are brand conscious, especially for aspirational reasons. Hart and London (2004) reveal that success in the BOP sector most often involves a new product, targeted at a new set of customers, and distributed using innovative distribution channels. Thus one or more of the marketing mix must be revamped.

For example, Haier India will launch a consumer designed line of refrigerators, washing machines, and CTVs designed specifically for the Indian consumer, as part of its strategy to capture the low end of the global consumer durables market.

Most MNCs fail to recognise the potential at the bottom of the pyramid. They often hold assumptions similar to those listed in Table 4 below. Yet Prahalad (2006 p9) claims "… a 10 – 200 times advantage (compared to the cost structures that are oriented to the top of the pyramid markets) is possible if firms innovate from the BOP up and do not follow the traditional practice of serving the BOP markets by making minor changes to the products created for the top of the pyramid".

Table 4 The Dominant Logic of MNCs as it relates to BOP Source Prahalad 2006

Assumption	Implication
The poor are not our target customers; They cannot afford our products or services	Our cost structure is a given; with our cost structure we cannot serve to BOP market.
The poor do not have use for products sold	We are committed to a form over functionality. The poor might

in developing countries.	need sanitation, but can't afford detergents in formats we offer. Therefore, there is no market in the BOP.
Only developed countries appreciate and pay for technological innovations.	The BOP does not need advanced technology solutions; they will not pay for them. Therefore, the BOP cannot be a source of innovation.
The BOP market is not critical for long-term growth and vitality of MNCs.	BOP markets are at best an attractive distraction.
Intellectual excitement is in developed markets; it is very hard to recruit managers for BOP	We cannot assign our best people to work on market development in BOP markets.

BOP Growth Curves

According to Prahalad (2006) "BOP markets can collapse the time frames taken for products, technologies and concepts to diffuse in the system… …The result is the challenge to the "S" curve model for the diffusion of new products and services in the developed world… …Changes that played out over 15 years in the developed markets are being collapsed into a short period of just 3-5 years in many BOP markets. The "I" curve challenges the status quo".

Traditional MNCs with product lines priced and developed for Western or Top Of the Pyramid (TOP) markets are often inaccessible to customers in BOP markets, and the feature-function set is often inappropriate.

Prahalad has also identified 12 Principles of Innovation for BOP markets:

1. Focus on price performance
2. Develop hybrid solutions blending existing infrastructure with advanced/emerging technologies.
3. Solutions must be scalable and transportable across countries, cultures, and languages.
4. Focus on conserving resources by eliminating, reducing, and recycling.
5. Product development must start from a deep understanding of functionality, not just form.
6. Process innovations are as critical as product innovations.
7. Deskilling work is critical.
8. It is important to educate consumers on product usage; most of the BOP live in "media dark" zones.
9. Products must work in hostile environments.
10. Research on interfaces is critical given the nature of the consumer population.
11. Designing methods for accessing the poor at low cost is critical.

12. The feature and function evolution in BOP markets can be very rapid, hence the platform should easily incorporate new features.

What is the significance of Dynamic Legacies; Global Focusing, Blue Oceans, Born Global / Hidden Champions; and BOP Marketing to our discussion on Emerging Economies and Global Marketing? In all these cases the emphasis is biased towards a global economy of satisfying consumer needs. To reach that paradigm a company must serve both high-end developed markets as well as low-end developing ones.

Blue Oceans

In the book by Kim and Mauborgne (2005) titled "Blue Ocean Strategy; How to create uncontested market space and make the competition irrelevant" the authors define two separate market spaces. One – the "Red Ocean" – is comprised of all the known industries in existence today. The industry boundaries are defined and accepted. Competition is focused on trying to outperform rivals and increase market share within existing demand.

In contrast, "Blue Oceans" are characterised by untapped market space, demand creation, and possibilities for highly profitable growth. For example, thirty years ago many billion-dollar industries did not exist: mutual funds, cell phones, discount retail, express package delivery, minivans, and coffee bars.

The driving forces behind blue oceans include:

1. Accelerated technological advances which substantially improve industrial productivity and resulted in a huge array of products and services.
2. Trend toward globalisation.
3. Global competition increasing supply without similar increase in global demand.

These forces accelerate commoditization, increase the frequency and severity of price wars, and put pressure on profit margins. As offerings (Brands) become more alike, consumers select based more often on price. Copernicus and Market Facts (2001)

Value Innovation

According to Kim and Mauborgne (2005) the key to a Blue Ocean strategy is Value Innovation, which is created at the intersection where a company's actions profitably affect both its cost structure and its value proposition to buyers. Buyer value is increased by creating and raising elements the industry has never offered to the market. Costs are reduced initially by eliminating and reducing the factors an industry competes on, and later as economy of scale savings due to increased volume.

For example, the Kraft company had slow growth. The new President said to the staff, `I want you to find me a billion-dollar business.' But the problem would be — firstly can you find new offerings and secondly can you do it in a way that it can't be copied fast, because here we are advocating innovation and if companies do it, and if it works, everyone else is on top of them very soon. That's the second challenge, how to create sustainable, long-term businesses. Kotler 2006

"Value Innovation requires companies to orient the whole system toward achieving a *leap* in value for both buyers and themselves". As noted by Kim and Mauborgne (2005 p 18), the key defining features of this strategy involve:

Create uncontested market space
Make the competition irrelevant
Create and capture new demand
Break the value-cost trade-off
Align the whole system of a firm's activities in pursuit of differentiation

They developed four actions framework, which incorporates four key questions to challenge an industry's strategic/business model, and break the trade-off between differentiation and low cost, thereby creating a new value curve:

- Which of the factors that the industry takes for granted should be eliminated?
- Which factors should be reduced well below the industry's standard?
- Which factors should be raised well above the industry's standard?
- Which factors should be created that the industry has never offered?

Emerging Economies Rankings

There are numerous ways to identify and rank emerging economies. Cavusgil (2002) clusters countries into Latin America, Laggards, Emerging Markets, Southeast Asian, Mature, Dynamic growth, and Asian "elephants". See Table 5 below

Table 5 Market-Oriented Classification of Emerging Economies Source: Cavusgil 2002 pg 23

Cluster	Demographic Makeup
Latin America Argentina, Peru, Brazil	GNP per capita: 20.77* Population growth: 1.4% Urban population: 78.33% Annual growth of industry: 0.27% Economic freedom: 2.82** Life expectancy: 67.33 years
Laggards Algeria, Bangladesh, Egypt, Tunisia Morocco, South Africa, Guatemala Nigeria, Pakistan	GNP per capita: 14.04 Population growth: 1.4% Urban population: 78.33% Annual growth of industry: 0.27% Economic freedom: 2.82 Life expectancy: 67.33 years
Emerging markets Chile, Colombia, Costa Rica,	GNP per capita: 20.91 Population growth: 1.83%

Dominican Republic, Ecuador, El Salvador, Honduras, Mexico, Philippines, Sri Lanka, Turkey, Venezuela	Urban population: 59.08% Annual growth of industry: 2.86% Economic freedom: 3.01 Life expectancy: 69.00 years
Southeast Asian Indonesia, Malaysia, Thailand	GNP per capita: 22.37 Population growth: 1.57% Urban population: 33.33% Annual growth of industry: 8.07% Economic freedom: 3.4 Life expectancy: 66.67 years
Mature Sweden, Switzerland, Austria, Belgium, Denmark, Finland, Norway, Poland, Netherlands, United Kingdom, Ireland, Italy, France, Spain, Greece, Hungary, Australia, New Zealand, Israel, Canada, Japan	GNP per capita: 68.01 Population growth: 0.46% Urban population: 75.71% Annual growth of industry: 2.15% Economic freedom: 3.55 Life expectancy: 76.05 years
Dynamic growth Hong Kong, South Korea, Singapore, Portugal	GNP per capita: 60.38 Population growth: 0.70% Urban population: 75.75% Annual growth of industry: 8.8% Economic freedom: 4.14 Life expectancy: 74.50 years
Asian "elephants" China, India	GNP per capita: 7.15 Population growth: 1.35% Urban population: 26.50% Annual growth of industry: 8.75% Economic freedom: 2.25 Life expectancy: 65.00 years

The World Bank identifies BEMs – Big Emerging Markets which contain half the world's population and account for 25% of the industrialized world's GDP

The list of BEMs is fluid, but they are characterized, in general, by:

- Are physically large
- Have significant populations
- Represent considerable markets for a wide range of products
- Have strong rates of growth or the potential for significant growth
- Have undertaken significant programs of economic reform
- Are of major political importance within their regions
- Are "regional economic drivers"
- Will engender further expansion in neighbouring markets as they grow

table 5 Big Emerging Markets Source: Cateroa 2005 p259

Country	Population (millions)	GDP* ($B)	GDP* (Per cap.)	Imports of Goods and services($B)	Exports of Goods and services ($B)
China	1,271.8	1,117.2	$878	371.4	457.4
India	1,032.4	492.5	477	80.4	78.0
S. Korea	47.3	639.2	13,502	213.8	320.9

Argentina	37.5	280.0	7,468	32.0	34.7
Brazil	172.4	798.8	4,633	79.9	86.0
Colombia	43.0	98.0	2,277	18.4	18.8
Mexico	99.4	372.7	3,739	188.0	158.5
Venezuela	24.6	81.9	3,326	23.7	24.8
Poland	38.6	143.6	3,716	56.5	54.1
Turkey	68.5	190.3	2,873	56.5	65.2
S. Africa	43.2	175.9	4,068	42.0	46.2

The 64 emerging economies identified by Hoskisson et al (2000) includes 51 *rapidly* growing developing countries and 13 *transitioning* from centrally planned or "transition economies". The 64 in alpha order are: Albania, Argentina, Armenia, Azerbaijan, Bangladesh, Belarus, Bosnia and Herzegovina, Botswana, Brazil, Bulgaria, Chile, China, Colombia, Cote d'Ivoire, Croatia, Czech Republic, Ecuador, Egypt, Estonia, Georgia, Ghana, Greece, Hungary, India, Indonesia, Israel, Jamaca, Jordan, Kazakhstan, Kenya, Korea, Kyrgyzstan, Latvia, Lithuania, Macedonia, Malaysia, Mauritius, Mexico, Moldova, Morocco, Nigeria, Pakistan, Peru, Philippines, Poland, Portugal, Romania, Russia, Saudi Arabia, Slovakia, Slovenia, South Africa, Sri Lanka, Taiwan, Tajikistan, Thailand, Trinidad and Tobago, Tunisia, Turkey, Turkmenistan, Ukraine, Venezuela, and Zimbabwe.

As noted by Cavusgil (1997) a Market Opportunity Index (MOI) of market potential is developed comprised of seven political, economic, and social variables (example: Market size, Growth rate, Commercial infrastructure, etc.) See Table 7 below.

Table 7 Dimensions and Measures of Market Potential Source:Cavusgil 2002

DIMENSION	WEIGHT	MEASURES USED
Market size	4/20	Total population
Market growth rate	3/20	Average annual growth rate of industry
Market intensity	3/20	Purchasing Power Parity estimate of GNP per capita (50% weight) Private consumption expenditure per capita (50% weight)
Marketing consumption Capacity	2/20	Size of middle class
Commercial Infrastructure	2/20	Telephone mainlines per capita (20% weight) Paved road density (20%) Trucks and buses per capita (20%) Population per retail outlet (20%) Percent of homes with color tv (20%)
Economic freedom	2/20	The Economic Freedom Index (Johnson & Sheehy, 1995)
Market receptivity	4/20	Average annual growth rate of imports from USA over past 5 years (60% weight) Per capita imports from USA (40%)

Limitations to Cavusgil's MOI include:

1. MOI is useful only in the initial stage of qualifying country potential
2. Additional aspects / alternative measures can be considered
3. The MOI is primarily for exporting firms as opposed to FDI, JV, etc.

While subject to change depending upon global activities, the MOI is valuable for managers by analyzing the rankings for each dimension, as shown in Table 8.

Table 8 Ranking of Emerging Markets Source: Cavusgil 2002 p265

Country	Market Size Rank	Market growth Rank	Market intensity Rank	Market Consumption Rank	Comms. Infra Rank	Economic Freedom Rank	Market Recept Rank	Overall Mkt Opp. Rank
China	1	1	22	4	20	23	5	2
Hong Kong	21	16	1	9	6	1	10	3
India	2	16	23	6	22	22	18	12
Indonesia	3		21	7	21	20	15	20
Malaysia	15	2	10	14	14	4	13	8
Singapore	23	15	2	10	3	1	1	1
S. Korea	10	10	6	5	5	4	4	4
Thailand	9	6	16	13	17	6	2	6
Argentina	13	3	9		4	11	17	10
Brazil	4	4	15	18	19	18	6	15
Chile	16	5	7	16	18	7	8	13
Mexico	6	13	14	15	16	15	3	11
S. Africa	11	14	13	17	12	12	9	19
Turkey	8	11	19		13	12	20	21
Czech Rep.	18	20	12		15	3	12	18
Hungary	19	12	11	1	9	8	23	14
Poland	12	7	18	2	10	17	21	16
Russia	5	21	17	8	11	21	7	22

Key: Mkt size, Mkt growth rate, Mkt intensity, Mkt consumption, Commercial infrastructure, Economic freedom, Mkt receptivity, Overall market opportunity

Due to economic reform and adequate supplies of capital the developing countries are in a rapid state of economic development and modernization. Figure 1 ranks the emerging economies based on both the size of their GDP and the capitalization of their stock markets.

Figure 1 The Emerging Economies Source: Cavusgil 2002 p7

The emerging economies Cavusgil 2002p7

Country	1	2	3	4	5	6	7	8	9
China	1262	81	10.7	-1.3	42	991	780	4800	10.8
Hong Kong	7	92	3.9	-4	30	159	23,520	158	68.5
India	1014	52	6.1	6.7	20	460	450	1805	7
Indonesia	225	83	4.7	2	24	141	580	610	8
Malaysia	22	83	6.3	2.8	45	75	3,400	229	26
Philippines	81	94	3.2	6.8	16	75	1020	282	12.5
Singapore	4	91	8	0.4	52	85	29,610	98	88.3
S. Korea	47	98	5.7	0.8	34	407	8490	626	47.8
Thailand	61	93	4.7	2.4	32	124	1,960	389	18.3
Argentina	37	96	4.9	-2	16	282	7600	367	37
Brazil	173	83	2.9	5	20	760	4,420	1057	20.6
Chile	15	95	7.2	3.4	23	71	4740	185	27.4
Colombia	40	91	3.3	9.2	19	47	2,250	245	18.6
Mexico	100	89	2.7	15	23	475	4400	865	25.2
Peru	27	89	5.4	5.5	20	57	2,390	116	14.3
Venezuela	24	91	1.7	20	17	104	3670	183	17.2
Israel	6	95	5.1	1.3	10	99	n/a	105	n/a
Portugal	10	87	2.5	2.4	17	108	10,600	151	49.5
S. Africa	43	81	1.9	5.5	18	131	3160	296	27.2
Turkey	66	82	4.1	65	21	188	2900	409	20
Czech Rep.	10	99	0.9	2.5	29	56	5060	121	40.2
Hungary	10	99	1	10	28	48	4650	79	34.2
Poland	39	99	4.7	8.4	18	154	3960	277	25.8
Russia	146	98	-6.1	86	29	375	2270	620	20.7

1 population 2000 est Million; 2 literacy rate %; 3 average annual GDP growth rate 1990-1999 %;
4 inflation rate 1999 est; 5 Gross Domestic Savings, 1999(%0f GDP); 6 GDP 1999 (US $ billions);
7 Per nominal capita GNP 1999 U.S. $; 8 GDP-PPP, 1999 est. (US $ Billions);
9 Per capita GNP-PPP, 1999 U.S.=100

The A.T. Kearney/FOREIGN POLICY Globalization Index tracks changes in four key areas of global integration:

Economic Integration is comprised of data on trade and FDI inflows/outlows.
Personal Contact monitors international travel and tourism, international phone traffic, and cross-border remittances / personal transfers.
Technological Connectivity counts internet users, internet hosts, and secure servers
Political Engagement includes each country's memberships in a range of representative international organisations, ratification of selected multilateral treaties, and governmental transfer payments and receipts.

The Latin Globalization Index produced by *Latin Business Chronicle* uses six indicators to rank globalization, such as Exports of goods and services as a percent of GDP; Imports of goods and services as a percent of GDP; FDI as a percent of GDP; Tourism receipts as a percent of GDP; Remittances as a percent of GDP; and Internet penetration. Their latest index released in 2005 showed Panama as the most globalized economy in Latin America as is shown in Table 9 below.

Table 9 . Latin America Globalization Index

Rank	Country	Score
1	Panama	14.46
2	Dominican Republic	13.54
3	Costa Rica	12.99
4	Honduras	11.20
5	Chile	10.62
6	Nicaragua	9.77
7	El Salvador	9.53
8	Uruguay	8.59
9	Mexico	8.19
10	Paraguay	7.59
11	Ecuador	7.36
12	Guatemala	6.47
13	Venezuela	6.43
14	Brazil	5.56
15	Colombia	5.55
16	Peru	5.55
17	Argentina	5.53

Examples of Emerging Economies Potential
In a survey of 9,300 business leaders worldwide (McKinsey 2005), 81% think that increasing affluence and growing demand for products and services in developing economies will be important in the next 5 years. Most view the rise of low-cost business systems in developing economies as an important trend. Surveyed companies with more than $5 Billion in sales responded (41%) that they expect China to be their biggest growth market. Responses from all sized companies ranked countries for growth as U.S. (27%), China (25%), U.K. (7%), India (5%), Germany (4%), Brazil (3%), and Russia (3%).

In a March 2006 survey respondents rated the impact that trends during the next 5 years would have on their global business. (McKinsey 2006) Respondents rated their top concerns as the growing number of consumers in emerging economies (87%), and the shift of economic activity between and within regions (eg. Asia or within the European Union) (84%). Increasingly global labor and talent markets were mentioned by 79% of respondents. These trends follow an already intense global economy where 85% of respondents describe the operating environment as "more competitive (45%) or "much more competitive" (40%) than it was 5 years ago.

* New competition to India's outsourcing technology base comes from China, Russia, Eastern Europe, South Africa, Egypt, and others, where those countries' language skills give some of them an edge, since India lacks large numbers of German, French and Spanish speakers.

"Indira Gandi during the first half of the 1980s abandoned a commitment to redistribution, and recommitted herself to a 'growth first' model of development.

These priorities, in turn, led her to tilt the policy process in favor of big business, against labour, and to restructure the state's own role in the economy towards growth promotion… … [which] has pretty well been pursued by subsequent governments". (Kohli 2006)

* According to a McKinsey Quarterly survey (McKinsey 2005), which polled more than 9,300 executives worldwide, of the 537 executives of Indian companies 60% of them regard an inadequate infrastructure as a significant or very significant constraint on growth to operating in a fast-growing developing economy (India). Panel wide, 23% of the executives shared that same view. Surprisingly, those Indian executives see the high cost and low availability of talent as the single greatest constraint on their companies. Source Mar. 2005 McKinsey.

* During the period August 1991-May 2005 the leaders in cumulative FDI to India were USA, Netherlands, Japan, UK, and Germany. (SAI 2006). Roughly 77% of foreign investors in India are reported to be profitable. Source Federation of Indian Chambers of Commerce and Industry (FICCI) 2004 Taking into account the factors investors consider key for investment decisions, according to FICCI investors rank political stability(1), stable policy(2), reduction in ground level hassles(3), rate of return(4), market growth(5), availability of skills and manpower(6), stable exchange rate(7), and government incentives(8).

* In AT Kearney's 2004 ranking of offshore locations, India out-ranked China by a wide margin, mainly due to its combined low-cost advantage and its large availability of high-skilled workers. Following India in order were China, Malaysia, Czech Republic, Singapore, Brazil, Philippines, Canada, Chile and Poland.

* Growth in India is entrepreneur-driven while China is based on a state-centered model. Entrepreneurs in India receive over 80% of all loans. In contrast, only 10 percent of loans in China go to the private sector, even though that sector employs 40 percent of the work force. Beijing remains distrustful of entrepreneurs, and China growth is based on exports by state enterprises or foreign companies.

For example, since the 1980s China's distribution system, encouraged by the government, has been encouraged export-oriented foreign firms to invest in free trade zones along the coast. Foreign firms don't have the same inland distribution and logistics authority as domestic firms do. Recent developments such as WTO entrance, e-commerce, and a booming economy are influencing the fragmented distribution network and putting pressure on China's undeveloped infrastructure, regulations, and regional protectionism. Jiang B.; Prater E. (2002)

* The Chinese auto market grew 60-70% annually, between 2001 – 2004, slowing in early 2005 as a result of government intervention. Following China, the Indian automobile industry is the second-fastest growing market, running about 8 million units annually. Car sales in Russia grew 7-8% annually since 2000, and customers are more often moving up to purchase more expensive cars. China's auto industry is highly fragmented, boasting over 100 manufacturers.

Every major worldwide manufacturer is in the Chinese market (ex: VW, GM, Toyota, Honda, Ford, Nissan) through either imports, or local assembly and production plants utilizing JV partners locally. The Indian market is less fragmented.

Maruti Udyog/Suzuki, Hyundai, Tata and Honda/Siel lead the market. The key player in the Russian auto market is domestic manufacturer AvtoVAZ, followed by imports.

China has overtaken South Korea and France to become the 4th-largest auto manufacturer in the world. Unlike China, India has started earlier to build a substantial passenger car export business, led buy Hyundai Motor India. Russia utilizes three common form of auto production: Joint Ventures (GM-AvtoVAZ), Assembling under license (Hyundai, Kia) Subsidiary local production (Ford, Toyota, VW). The problem in the Russian market involves the low-quality of locally-produced components.

Conclusion

The opportunities of emerging economies to the multinational corporation, within a context of a paradigm shift of international business that includes more manageable risks, higher income growth and increasing consumer purchasing power lie in both the market available to sell to and the market available to buy from. This shifting dynamic allows corporations to enter new markets and to source from new suppliers offering low cost and high quality resources. The significance of the emerging economies to global business is just beginning to be realized and there is a lack of research in this area. Through both the BOP and Blue Ocean theories it can be seen that enormous opportunities are available in these emerging economies.

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