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Growing the pie in emerging markets: Marketing strategies for increasing the ratio of non-users to users

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ABSTRACT

Emerging markets are the growth engines of the world but they differ significantly from developed countries. Multinationals tend to flounder in these countries due to the challenges posed by five key emerging market characteristics: market heterogeneity, sociopolitical governance, unbranded competition, chronic shortage of resources and inadequate infrastructure. Reducing the negative impact of these emerging market characteristics can increase the ratio of first-time users to nonusers thereby resulting in large scale market expansion. To this end, we propose eight marketing strategies rooted in the 4 A's framework: Affordability through democratizing and upscaling the offer; Accessibility through managing and reinventing reach; Acceptability through cultural and functional fusion; and Awareness through building brand identity and engaging stakeholders. Achieving these customercentric outcomes can help companies overcome the challenges and realize the true potential of emerging markets.

1. Introduction

Emerging Markets (EMs) have become the growth engines of the world. Driven by demographics, economic liberalization, an expanding middle class, and better capitalization of resources, these markets now represent 36% of the global GDP. They are expected to offer a USD 30 trillion market potential by 2025, of which China and India may generate as much as USD 10 trillion in annual revenue by 2020 itself. Leading multinationals (MNCs) have been entering EMs in increasing numbers because their home markets for existing goods and services are saturated. However, MNCs still earn just 17% of their total revenues from EMs (Atsmon, Child, Dobbs, & Narasimhan, 2012; Silverstein, Singhi, Liao, & Michael, 2012). Many companies and brands have entered, invested and faltered in these markets due to a wide range of factors. For example, China's cultural, political, regulatory and economic complexity has led to failures for companies like Uber, Amazon, Google and several marketers of luxury products (Salomon, 2016; The Economist, 2014).

A major route to success in EMs, is growing the pie i.e., expanding the size of the market by bringing large numbers of non-users into the consumption fold. However, this can be a significant challenge due to the negative impact of five unique characteristics of these markets: market heterogeneity, sociopolitical governance, unbranded competition, chronic resource shortages, and inadequate infrastructure. EMs

are highly diverse from an economic, social, cultural, geographical and historical perspective. About 50% of the population remains at or near the bottom of the pyramid (BoP). Vast numbers live in undeveloped rural areas. Even the newly burgeoning middle classes either do not use many products (i.e., goods and services), or use unbranded ones or local/regional brands. Moreover, sociopolitical institutions such as faith and clan cultures far outweigh competition. Low disposable incomes, lack of skilled labor, shortages even of basic utilities, broken supply chains and lack of infrastructure are some of the many contextual realities that flummox MNCs in these markets (Sheth, 2011).

Managing and overcoming the negative impact of such EM characteristics requires deep market insights but the central focus in marketing strategy research has been on companies and on developed markets. The two dominant themes that have captured most international marketing research attention are (a) strategic marketing concepts like standardization versus adaptation of the overall strategy (c.f., Cavusgil & Zou, 1994), and (b) issues like segmentation, targeting, positioning and the relationships between individual marketing mix elements. Global research on product, price and promotion have provided some insights on consumers in select countries (c.f., Erdem, Zhao, & Valenzuela, 2004, Roth, 1995, Farley, Hayes, & Koppalle, 2004, Chintagunta & Desiraju, 2005).

Burgess and Steenkamp (2006) strongly recommend doing research on low income, developing or emerging markets, rather than relying on

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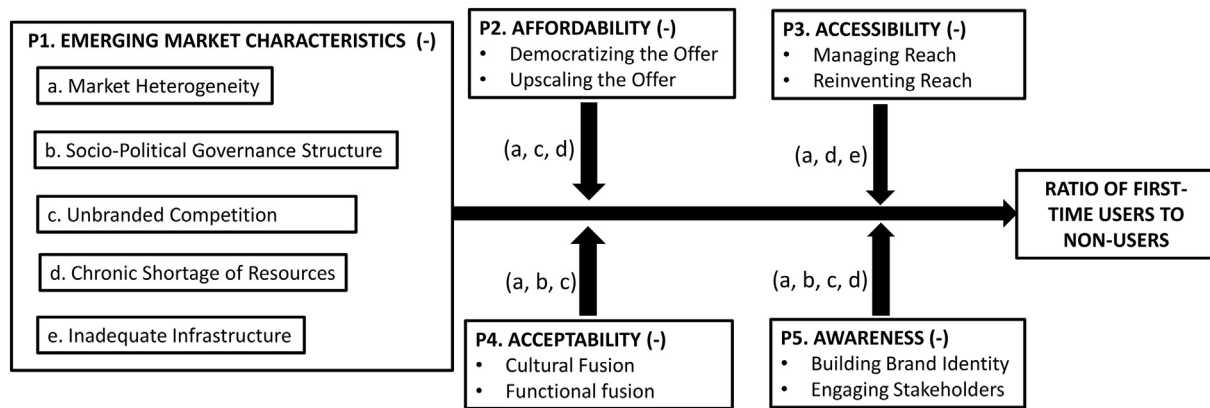


Fig. 1. Marketing strategies for emerging markets.

Note: The letters in parenthesis indicate the EM characteristics to which the proposition pertains.

research insights from high-income industrialized ones. International marketing research has typically examined the impact of each item of the marketing mix in specific markets in their sample, which have included just a few EMs. However, the insights gained from select EMs cannot be generalized to others due to the high within and between-market heterogeneity in these countries. The outcome variables studied have typically been entry failure/success, profitability and market share (Sheth, 2011). External environmental factors like economic development, regulations, competition and culture have been found to impact corporate performance (Ghemawat, 2001) and undoubtedly these factors differ significantly across countries. Our examination of prior literature on EMs reveals only one in-depth empirical study of the country level differences in the external environment. Bahadir, Bharadwaj, and Srivastava (2015) have studied 14 EMs to provide evidence of how the five country characteristics mentioned above, positively or negatively moderate the impact of the marketing mix variables on brand sales.

We believe that the real growth in EMs lies in market expansion whereby increasing the ratio of first-time users to non-users will result in 'growing the pie'. Therefore, we are specifically interested in innovative ways of reducing the negative impact of these country characteristics in order to create more first-time users than non-users in those countries. Although prior research has offered some valuable insights, at this time they are insufficient for developing market expansion strategies specifically for EMs. Strategies such as 'Think Global, Act Global' (Levitt, 1983) and the subsequent 'Think Global, Act Local' (Quelch & Hoff, 1986) are both inward-looking, company oriented perspectives that are limited in their ability to achieve large scale market expansion in EMs given the unique challenges faced there. Instead, an outward-looking, market-oriented perspective is needed but the deep market insights required for such a perspective are currently lacking. Consequently, when MNCs enter EMs they tend to over-emphasize the attractive segments i.e., the upper-middle and high-income groups who already use or have high propensity to use their products. Although these segments have rising standards of living and aspirations, focusing only on them is a limited perspective because non-users form the vast majority of the population and their incomes, albeit low, are rising too.

To the best of our knowledge, the issue of market expansion via overcoming the constraints imposed by EM characteristics has not received any significant research attention thus far. Without a theoretically grounded approach tailored to EMs, companies risk investments worth billions of dollars. Thus, the objective of our paper is to propose a theoretical framework and strategies for addressing the negative impact of EM country characteristics in order to increase the ratio of first-time users to non-users.

Our central thesis in this paper entails a strategic shift away from the firm-centric, marketing mix with its 4 (or more) Ps, to Sheth and

Sisodia's (2012) 4 As framework which suggests that customers must be provided 'accessibility' to and 'awareness' of 'acceptable' and 'affordable' solutions to their needs. To achieve the 4 As we propose eight specific strategies and related propositions. In doing so, we bridge the two streams of global marketing literature—standardization/adaptation and the marketing mix, and use these to address the challenges posed by EM characteristics. We hope that the theoretical and practical guidance we offer will spur empirical research in the field that can help companies build critical skills, which they can adapt to whichever EM they enter.

We structure our paper as follows: First, we present our conceptual model by describing the EM characteristics and the challenges they pose to increasing the ratio of first-time users to non-users. Then, to address the negative impact of these characteristics, we introduce the 4 As framework that involves creation of acceptability, affordability, accessibility and awareness of products (i.e., goods and services) (Sheth & Sisodia, 2012). We offer two strategies for achieving each of the 4 As along with related propositions. Finally, we conclude with implications for practitioners and researchers, discuss limitations of our work and suggest future research directions. The conceptual model is in Fig. 1.

2. Conceptual model and propositions

To build the conceptual model, we describe the emerging market characteristics and its proposed effect. We then discuss each of the 4 As and explain the two strategies to achieve its desired outcome.

2.1. Antecedents and outcome: emerging market characteristics and ratio of first-time users to non-users

External environment challenges influence firm strategies and success (Miller & Friesen, 1983) and studies have provided empirical evidence of this in an international marketing context as well (e.g., Katsikeas, Samiee, & Theodosiou, 2006). EMs are especially dynamic and inconsistent (Douglas & Craig, 2011), posing unique challenges. Sheth (2011 pp. 168–169) describes the five key contextual characteristics in EMs that can be challenging for marketers.

2.1.1. Market heterogeneity

EMs are highly heterogeneous i.e., consumers' scale and consumption patterns vary greatly across and within markets, reflective of pre-industrialization, agrarian societies. Markets tend to be local, fragmented, low scale and served mainly by owner-managed small enterprises. Almost half the population may be illiterate and at the bottom-of-the pyramid with little or no access to electricity, running water, financial services or transportation. At the same time, EMs are also home to some of the world's most affluent people. Wide gaps between the poor and the

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