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planung & analyse
Mainzer Landstr. 251
60326 Frankfurt/Main
Tel.: +49 69 7595 2019
Fax: +49 69 7595-2017
redaktion@planung-analyse.de
www.planung-analyse.de

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Giving Customers What They Really Need

Understanding Trade-Off Scenarios in Emerging Markets

The term *emerging market* is still imbued with the magic of a new El Dorado: a mysterious and inaccessible place, but one that promises unbelievable wealth once you get there. Breathtaking figures equal to hundreds of millions of new consumers in a rapidly growing middle class are reported. However, multinational companies do not just bring their products, technologies and skills to emerging markets, but also their understanding of market structures in developed countries and their respective context. It is commonly acknowledged that marketing strategies need to be adapted to meet the challenges of different infrastructures and languages. However, in order to develop a successful marketing strategy for emerging markets it is essential to identify and understand a product's actual trade-off scenario from the perspective of the potential customer in an emerging market.

We define the trade-off scenario as what potential customers think they're getting when they buy a certain product and what the selling company thinks the customers believe they're getting when they purchase a product or service. Sounds confusing? It definitely is, and that is why being successful in emerging markets is far more difficult than it might appear at first sight.

In a research project conducted in conjunction with Wisconsin International University (Kiev), we wanted to understand how the specifics of an emerging market impact on (a) the trade-off situation and (b) the marketing and product placement strategy. In order to achieve this, we conducted in-depth interviews with 45 marketing directors for emerging markets. This allowed us to filter and identify (via a best-practice approach) major adaptations of their original marketing strategy that better meet the needs of the respective emerging market. We interviewed marketing directors from six industries (automotive, food, FMCG, retail, telecommunications, banking) and six countries (Malaysia, China, India, Ukraine, Russia, Indonesia). We identified the three key factors that significantly impact on trade-off scenarios: low incomes, disparity in terms of consumer and infrastructure, and the cheapness of labor.

The following extracts from this research demonstrate how, within various industries, trade-off scenarios in emerging markets are affected by these three key factors, and how they can turn conventional marketing wisdom upside down.

Learning 1: Less Sophisticated Market Segmentations Can Be Better

Subtly refined market segmentations with highly differentiated product variations constitute a widespread marketing approach in developed countries. Detailed market segmentations of

developed markets can be generated at low cost with high returns in revenue if the findings of the market segmentation are duly applied.

Let's take the example of shower gels: in developed markets, numerous brands commonly offer a vast choice of fragrances, freshness, and skin treatments, such as anti-aging, etc. Segmentation at such sophisticated levels is expensive in terms of product development, branding and distribution. Nonetheless, these costs are justified because consumers are willing and above all able to pay for specialized products that suit their needs. However, the mass market in emerging markets is unable to afford this level of segmentation; segments in emerging markets are much less sophisticated. For example, the average price of shower gels is much lower in Malaysia than it is in Germany, so the segment comprising those people who are able to pay for a higher-priced shower gel is much smaller than it is in a developed country.

A more refined segmentation quickly marginalizes the previous vast and promising number of potential consumers to a point where it makes no sense to offer them a highly specialized shower gel. A refined level of segmentation also assumes that market segments can easily be reached via differentiated communications which is targeted at different audiences. This does not apply to emerging markets. It is certainly true that means of mass communication (such as a variety of TV channels and the Internet) have developed and spread with lightning speed, but these media channels aim at a broad segment of users. A highly differentiated media market aiming at highly differentiated segments does not exist as it does, for example, in Germany or the US. Multinational companies therefore also lack highly differentiated ways of communicating. However, these specialized media channels are necessary to address a specific target group and communicate the specific value of a certain product to a highly segmented target group. Thorough and detailed market segmentation is undoubtedly necessary for every emerging market and furthermore it is crucial to understand the level of detail that makes sense in terms of monetizing a product group as well as communicating with a target group. As a rule of thumb, market segmentations should be less sophisticated in emerging markets than they are in developed markets.

Learning 2: Rapid Innovation Cycles Can Be a Disadvantage

Rapid new product development and continuous product innovation are commonly a successful strategy in developed markets. Offering super-innovative products is often highly appreciated by the target group, and investment of this sort is duly monetized. However, is this what potential customers in emerging markets really want? It goes without saying that cell phones, computers, etc. must also incorporate cutting-edge technology in emerging markets. Nevertheless, when it comes to more basic products in more rudimentary markets such as FMCG (although this even applies to cars), rapid innovation cycles can be counter-productive because they are not what potential customers are really looking for. Consumers in emerging markets sometimes even dislike excessively rapid innovation cycles because they make decisions more difficult and render recent purchases (and decisions) obsolete.

The trade-off is different: the need for basic, functional, long-lasting products prevails. Cars are a very good example of this trend: if you ask possible buyers of new cars in emerging markets about their preferences and their knowledge of technology, you will definitely get a picture of a highly knowledgeable customer base which is almost identical to that encountered in developed markets. However, if one examines more profound motivation and analyzes purchase preferences and criteria, one is struck by more fundamental requirements, such as basic functionality, long-evity and reliability.

The Volkswagen Beetle is an example of this. It remained the best-selling car in Brazil long after it had been phased out of developed markets, and even despite competitive assaults by other manufacturers with newer and far more sophisticated models. Any visitor to China will notice that one of the most widespread cars is the Volkswagen Santana, a model that incor-

porates basic technology which became outdated in developed countries more than a decade ago. Nevertheless, in China these cars are renowned as dependable workhorses which can easily be repaired; they are reliable, and inexpensive spare parts can be obtained. Advanced technological sophistication may therefore be valued by customers in developed markets and thus justify the investment in technology, yet the opposite can be true in emerging markets because purchasing reliability may be a stronger criterion when defining the trade-off scenario.

In the case of buying a car, basic functionality and reliability can constitute a much greater motivation in emerging countries than in developed countries, where functionality and reliability are considered a commodity. Purchase drivers here are the result of the specific income situation: a car is much harder to afford, so it is a more valuable investment. As for the infrastructure, spare parts are far more expensive or harder to obtain.

Learning 3: Time Is Not Necessarily Money for Customers

Asking the trade-off question can also touch upon the perceived value of a potential customer's time. The trade-off scenario for convenience foods (and hence the success of this product category in developed countries) was not about taste. We can readily assume that when the convenience food boom started in developed markets, the major reason to buy these products was to save time, and not because they tasted better than home cooking. Convenience foods in developed countries are considered to be time-saving. In developed countries, switching to convenience foods makes far more sense because labor costs are high. Consumers in developed countries are thus much likelier to estimate their time in financial terms.

Labor costs, however, are much lower in emerging markets, so the time-saving aspect does not pay off. Of course consumers do not take a purely rational approach when deciding between home cooking and convenience foods, but it unconsciously influences their decision. The need to save time is simply not a strong motivation. The general income situation is not the only influencing factor, the way in which the society is structured is important too.

In developed countries, home cooking is reserved for special occasions and convenience foods tend to serve as a daily commodity, whereas the opposite is true in many emerging markets. Cooking as a family is an everyday necessity, partly because the higher costs of convenience foods do not make the trade-off worthwhile, but also because cooking helps to strengthen family ties. On the other hand, convenience foods in emerging markets represent something for special occasions rather than a commodity. The family allows itself some extra expenditure and the mother (who is mostly in charge of cooking) has a day off. At first sight, the trade-off may be identical in both markets: convenience and time-saving are obtained in exchange for money, but the trade-off is in fact different. People in developed countries trade their money in order to save time on a daily basis; people in emerging markets trade their money for luxury and comfort/convenience on special occasions.

Learning 4: Infrastructural Constraints Can Be an Advantage

Infrastructural challenges in emerging markets such as power shortages, bad roads, etc. are often considered a disadvantage and hindrance when entering these markets. However, these special challenges can offer an opportunity to create a totally new trade-off scenario. In a qualitative survey, Whirlpool discovered that the main problem for Indian households was that frequent power cuts always reset washing machine programs to the start. This finding resulted in a small but very useful technical feature: while most Western washing machines sold in India reset to *start* when the power was turned on after a power cut, Whirlpool washing machines continued the program from exactly where it had stopped when a power cut occurred. This little feature was so useful in households where power cuts were fairly common that it became a sales booster. This function becomes even more valuable if one considers the costs of washing powder, which is wasted if the washing machine restarts from the

very beginning after every power cut, especially in relation to the average household income. Thus, the mere number of sophisticated washing programs was not what exerted the greatest influence on the trade-off; instead, it was a simple feature which took account of the market's infrastructural shortcomings.

Volatility of Trade-Off Scenarios

If one looks at the examples provided, one can summarize that trade-off scenarios in emerging markets are influenced by three major factors: infrastructure, income situation and social structure. However, these factors are subject to considerable disparity within each individual emerging market country. Completely different worlds become visible if one examines the vast differences in terms of income, social structure, family structure, language, religion, etc. that exist between rural and urban life in emerging market countries. A trade-off scenario that has been identified to work for urban consumers may thus be completely different in rural areas. Moreover, emerging markets are subject to rapid changes and developments. Trade-off scenarios that have been identified, can very quickly become outdated and must therefore be revised and reanalyzed more frequently than in developed countries. Success in these markets is therefore not only a matter of thorough analysis and understanding the differences but also of speedily developing the right marketing strategy and putting it into action.

Abstract

Marketing in emerging markets often has to follow different rules to those prevalent in developed markets and is largely influenced by infrastructure, income situation and social structure. Completely different product features might be important to the customer in the purchase decision. Basic functionality and reliability can be much more important than fancy features, whereas the motivation to save time by using the product is usually not pronounced. Success in these markets is thus not only a matter of thorough analysis and understanding the differences but also of speedily developing the right marketing strategy and putting it into action.

The Author:



Kishor Sridhar is Senior Project Manager for national and international studies at the international market research and consulting company Vocatus. He has 10 years' professional experience in national and international spheres, including the American Gallup Institute. He gives regular lectures on the topic of strategic marketing at Wisconsin International University in Kiev, where he is a visiting academic.