SUCCESS FACTORS OF BUSINESS STRATEGY IN EMERGING COUNTRY MARKETS

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Abstract: The paper presents the most important success factors that can be used by multinational companies in the international business strategy in emerging country markets. The most important factors are: the relationship with the government, with the customers, suppliers and the community, the entry strategy and the adaptation of the marketing mix elements.For the emerging markets new business models have to be developed, taking into account the problems of poverty and distorted income distribution.

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1. INTRODUCTION

The paper is based on a secondary research regarding the strategies used by multinational companies in emerging country markets, taking into account a changing economic, cultural, political and legal environment and presents the most important factors of the business strategy that could lead to success in these markets.

Emerging country markets as China, India, Russia, Brazil have become attractive for the international business activities of multinational corporations. New multinational companies from emerging markets have developed and are competing with the multinational corporations from mature Western markets. The high growth of emerging country markets and their integration into the world economy is rapidly increasing the interest in these markets and is rearranging the competitive forces for firms and economies.

The business environment of the emerging markets is relationship oriented, these markets being considered “network societies”, and is more complex, turbulent and risky. Many economies of emerging markets are dominated by large, diversified business groups.The multinational companies are connected with the local environment of the emerging country markets through relationships with the government, local communities and interested organizations.

In countries where formal institutions are weak, informal institutions, such as norms governing interpersonal relationship are influencing firm strategies and performance. By forming strategic alliances with local partners, foreign companies are being involved in local networks.

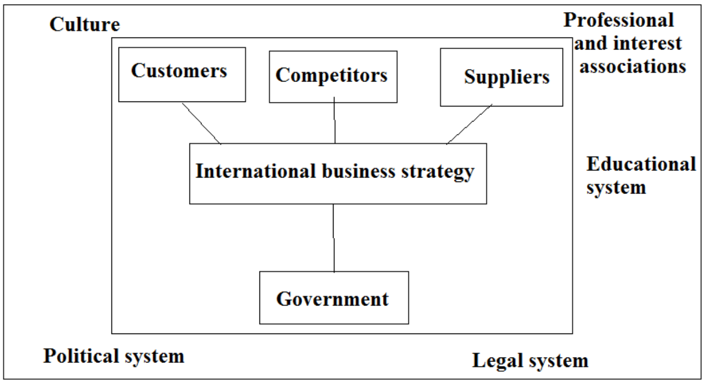
2.SUCCESS FACTORS OF BUSINESS STRATEGY IN EMERGING COUNTRY MARKETS

Corporations can be socially responsible by developing local suppliers, by training local managers and developing local education capacity and by being involved in social and economic partnership projects regarding education, culture and community development. Companies can create a good image in the community and can improve the understanding of local culture and business partners. A high reputation could become the source of a differentiation advantage. Reputation and brands are intangible resources and are closely related to the identity or image of the MNC.

The most important success factors of business strategies used by multinational companies in emerging markets are: the entry strategy, the adaptation of the elements of the marketing mix to the local market requirements, a good relationship with the government, suppliers and customers and the community development activities.

The experience of the company could be considered a success factor of business strategy in entering emerging markets because it can create deeper business relationships amd a better understanding of local markets and culture. For example, Caterpillar, the world’s leading manufacturer of construction equipment has a 30 years experience in China, which helped them in manufacturing, product design, distribution and service.

Figure number 1 illustrates the success factors of the business strategy adopted by multinational companies in emerging markets.



Source: Jansson H. International business strategy in emerging country markets, Ed. Edward Elgar Publishing, UK, 2007,p. 43

Fig. Nr. 1: Success factors of the strategy

Environments from emerging markets are hard to analyze and predict and that is why entry modes as joint ventures and other types of alliances are preferred to wholly owned subsidiaries. Strategic alliances between foreign companies and local companies from Latin America have helped local companies to better position themselves in the newly opened economies and to better respond to consumer demand. By joining forces, allying firms can effectively raise barriers of entry to other parties wishing to enter a competitive arena. A good relationship with alliance partners is crucial for a success strategy in emerging markets. Local companies have a lot of advantages from entering an alliance: access to technological and marketing expertise, to a foreign partner's financial resources, direct access to foreign markets and risk and cost reduction.

Volvo Truck Corporation formed a joint venture in India with Eicher Motors in order to use the partner's sales and service inmfrastructure and manufacturing power and to increase its sales from 5000 vehicles to 100000 by 2015.

A good relationship with the government includes a preferential access to various kinds of licences to operate in a country or receive different types of incentives for plant location or export. Volvo Truck Corporation created a trusting relationship in India with the government, showing respect for the local values and norms. The company has employed local people, brought latest models and technology and shared its knowledge on environmental issues. In order to understand and adapt to the Indian business culture, Volvo employed skilled Indians and had a strict policy of forbidding any involvement in activities that might be called corrupt. Volvo developed good relationships with higher ranked politicians and bureaucrats at state and union levels.

Regarding the product and the relationship with the customers, Volvo exposed the customers to modern truck technology and standards, improving the transport economy. The new products were environmental friendly, which was a competitive advantage. The company has invested in customers education in order to increase the demand for products with higher environmental standards but, although customers were not willing to pay a higher price for these features, attitudes have changed slowly. The strategy used by Volvo was a manipulative one (Jansson,2007) because it has influenced the norms and values prevailing in the market. The local competitors were forced to follow the strategy by raising quality and technology but benefits were created for the society through reduced pollution and noise levels. The higher reliability and longer life cycle of Volvo trucks put pressure on Indian manufacturers to match these standards, which helped them to export their products to other Asian markets.

In order to have a good relationship with the customers, Volvo has adapted the products to the customers'needs.

The relationship with local suppliers in India included the development and training of suppliers in order to raise quality levels. Some of the suppliers were included in Volvo's global sourcing program because they were able to upgrade to the global quality standard.

Regarding the labour market, the relations of Volvo with local authorities and unions were good and were focused more on cooperation than conflict. The control of the government on the labour market was strict and regulated and that is why Volvo adjusted to the general rules and regulations. Volvo brought new international values and norms which were largely accepted by employees, so there was a positive influence from the organizational culture.

Having a good relationship with the government leads to a better competitive position of the MNC by gaining various types of favors. Obtaining an industrial licence for a new product or the approval for the capacity increase may create a competitive advantage for the company.

One of the strategies used by multinational companies in emerging country markets is the transformation of that market in a regional manufacturing hub, serving other neighbouring markets.

LG Electronics has used such a strategy in Brazil, opening 2 factories for manufacturing televisions, cellular telephones and monitors and exporting them to South America and US markets.

Another success factor in business strategy is the location of factories in underdeveloped areas, having the advantage of different incentives provided by the government as: lower tax rates and subsidized land.

The success factor in the business strategy adopted by LG in China was the geographic proximity to Korea and the cultural similarities. The labor cost advantages offered by China gave LG the opportunity to build a strong manufacturing network with 12 production subsidiaries and sales centers.

In order to reduce the vulnerability to political risk and to create an image of a „local company"the multinational companies are trying to create a good relationship with the local government by helping local companies to develop. By signing agreements with local distribution chains the company gains quick access to the market.

Regarding the products, the best strategies are to complement the global product line with customized offerings taking into account the cultural and social dimensions. In the indian market, for the range of air conditioners, LG Electronics designed a unique air filtration system to filter the high levels of particulate pollution in metropolitan cities.All home appliances were equipped with circuits that could weather dramatic voltage fluctuations that were very common in India. New products were created for the rural markets, with a more compact set of features and cost-efficient materials in order to be manufactured at a lower cost. The price of the TV sets was reduced with 40% because of the smaller screen size and the scaled-down sound system. Another product strategy was differentiation, offering TV sets with menus in local languages.

In Russia, LG has introduced products adapted at the local requirements, as the hot and cold air-conditioning unit that could be used the whole year and the microwave oven designed to match the specific needs of the Russian kitchen.

For the base-of-the pyramid markets the multinational companies should not only adapt the solutions from the western markets to local conditions but should design the product with the help of local partners.

The distribution strategy is usually adapted at the needs of the foreign market. LG Electronics built in India a distribution network with 4000 access points in small towns and rural areas and developed an online channel which offered product information. For the customer service, the company introduced a „walking- after sales service" concept that covered all the rural areas.The same concept was introduced in Brazil where a fleet of service vehicles could arrive at the customer within a very short period of time.

In many emerging markets companies do not use the traditional pricing model cost plus margin but they try to identify the selling price starting from the market and then they design the product.Even if the selling price is low, companies can gain acceptable profit margins from high-volume business.

In order to build brand awareness companies have used sponsorship of most popular sports. LG Electronics has sponsored a football club in Brazil and cricket in India, becoming the largest single sponsor of cricket in the world.

Regarding the promotion strategy, LG has used indian film stars to promote their products, taking into account that India is the second largest producer of films in the world.

Having one of the most popular branded products sold in Russia and being considered national brands, LG received permission from the government to use the Narodnaya Marke logo on its products and to display it in all company advertising and promotional materials

The strategy used by LG in India to reduce the vulnerability to risk was the integration strategy, which included local people employed in management positions.

In China, LG wanted to signal trust with local employees, 98% of all LG personnel being local chinese.

In the customization process and in the research and development activities the local engineering and design skills were an advantage.

A similar strategy was adopted in Russia where LG Electronics set up an R&D center dedicated for software development for a range of products and in China where LG set up a modern R&Dfacility in 2002.

Skilled and qualified labour ensured by many higher educational institutions in India was an important advantage for Volvo.

LG electronics has also developed in India a lot of CSR projects, setting up medical clinics for the employees and the local community and building a village school close to its manufacturing facilities.In China these activities included scholarships to students and sponsoring a touring cultural festival that would bring traditional Chinese cultural experiences to small towns and villages.

A similar strategy was adopted by Volvo in India by setting up a small clinic, by supporting voluntary welfare projects and by offering good prices to the farmers who had to sell their land for the setting up of the new factory, near Bangalore. A positive attitude towards Volvo was created in the local community because the company showed respect for local customs, culture, tribe structure, religion and caste. In order to avoid conflicts due to caste, local tribe leaders were consulted regarding employment of tribe members. If a local employee of a lower caste was hired for managerial duties, this could create a difficult situation for that person because people from a higher caste might consider this appointment as inappropriate.

Respect for and understanding of the existing religions was crucial, so there was a lower risk for potential conflicts that might affect the working conditions, an example being the relationship between Hindus and Muslims.

During the SARS crisis in China, LG initiated a campaign called „I love China" and donated equipment to hospitals, creating a good image in the local community. The success of the strategy adopted by LG in China was proven by the fact that the chinese declared an LG day to be celebrated each year on the 31st of January and the company became the largest exporter of televisions from the country, dominant in white goods and leading in computer memory chips and displays.

The corporate responsibility actions of leading emerging market transnational corporations can be as sophisticated as those taken by the most advanced Western companies(Sauvant,2008). Many transnational corporations from emerging markets like Cemex, Tata Group, Infosys,Haier, Koc,are engaged in Global Compact, the world's largest voluntary corporate citizenship initiative, where more than half of its 3000 participating companies are from developing economies. Responsible corporate practices adopted by transnational corporations in emerging markets can play an important role in managing different type of specific risks: innefective regulation, weak state, social unrest and poor living and health conditions. For example, Tata Group, India"s largest conglomerate is well known for its corporate responsibility actions in India, Bangladesh and Africa.

Transnational corporations from emerging markets are trying to reach high global standards for human and labor rights, environmental protection and anticorruption.

Another succes factor in the strategy adopted in emerging markets is the membership in influential industry associations.Volvo became a member of the Confederation of Indian Industry and could influence the government according to its interests, using a cooperative strategy.

3.CONCLUSIONS

The BRIC countries have some similarities and are usually perceived as economies in transition with high levels of uncertainty and risk.Therefore, multinational companies should adapt their strategies to the specific market conditions.

The most important obstacles encountered by foreign companies in China are the following: limited trademark and patent protection and weak law security on falsification of products, high cultural distance and language difficulties, different attitudes toward work and leadership, changing legal rules and regulations and lack of developed distribution channels.

One of the success factors in the business strategy adopted in China is an alliance with a local partner, allowing the foreign company to overcome all these barriers.

In Russia, the degree of external uncertainty and perceived risk are high. The most important obstacles in conducting business here are: the evolving legal system, high levels of bureaucracy, tariff and nontariff barriers and corruption. Multinational companies are less involved in Russia due to high perceived risk and uncertainty but the availability of highly skilled employees and the increasing demand and sales opportunities attract foreign companies to invest in the market.

A success factor in the business strategy is a good relationship with the government and an integration strategy.

India, in addition to other pressing economic and political challenges, has immense infrastructure shortfalls and hundreds of millions of extremely poor people.

In the indian market, the best strategy is to follow the rules and regulations of union and state governments and to follow the procedures of the administrative bodies. The bonds between the multinational companies and government are strengthened and sustained by the social linkage, of which trust is a critical part. The traditional global strategy is built on business models addressing the top of the economic pyramid but for the emerging markets new business models have to be developed and the adaptation of the global strategy may not be sufficient. The need for national responsiveness or local adaptation due to variation in global environments is a basic characteristic of business strategy in emerging country markets. There is a relation between the organization of the multinational company, the strategy adopted and the organization of the societies where the company is operating, so the company should adapt the strategy to the foreign market environment. The strategies adopted by multinational companies in emerging markets should be different for the top-of-the-pyramid and the base-of-the-pyramid markets.The succesful strategies for the base-of-the pyramid markets should rely on non-traditional partners as non-profit organizations, community groups and village-level governments and should recognize that social institutions dominate and social performance matters.

The multinational companies will have to rethink their business models(London and Hart,2004) being more flexible and creating relationships with non-traditional partners and local entrepreneurs.

A sustainable competitive advantage in emerging country markets is accomplished through having a suitable mix of competitive and societal advantages. The multinational companies are expected to take more responsibility for social matters such as health issues, infrastructure and the general welfare of people in order to gain sustainability from a societal point of view. The multinational companies are expected to create new jobs, educate people, improve the infrastructure and protect the environment.

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