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Changing business practices in a world of emerging economic giants

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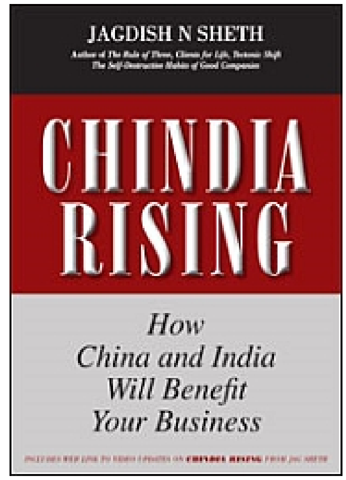

China and India, the two emerging economic giants, are not only seen as markets with huge potential. With their growing influence, companies all over the world are likely to find themselves adapting their business practices to suit these two giants, instead of making them conform to existing ways of doing things.

Western companies, accustomed to their ways of marketing to consumers in their own developed markets, need to change. "The emergence of developing nations would revamp marketing in ways never thought possible," said Professor Jagdish N. Sheth, who is the Charles H. Kellstadt Chair of Marketing, at Emory University's Goizueta Business School. He was speaking at a recent seminar organised by Singapore Management University's Lee Kong Chian School of Business (http://www.business.smu.edu.sg/).

Previously, companies in advanced economies would develop marketing strategies within their own home markets, for their home markets. Then, they will take the same ideas, and adapt them for their overseas markets. Sheth argues that it is now time to change this model; it is now time to innovate from within developing markets like China and India. "They must innovate in emerging markets, and then take it to the world, rather than the traditional model of where they innovate in the Western world and then bring it into emerging markets with some adaptation, localisation," he said. Sheth is also author of the book, "Chindia Rising: How China and India will benefit your business".

New industries

What gives emerging economies the competitive advantages in innovation? Innovation, by its nature, is no guarantee of success. However, emerging economies can better bear the costs of the failure of innovation. While downside risks are there, there is usually more upside. No one needs any reminder that China and India are huge markets, and so are the potential profits. Furthermore, costs of research and development in emerging markets can be as much as 50 times cheaper compared to developed markets like say, America, said Sheth.

However, that does not mean that companies in advanced economies will lose out in every sense. These companies will still be responsible for developing cutting edge products that create new markets with new technologies, instead of fighting in existing ones on the basis of cost.

Take for example the mobile industry. According to network supplier Ericsson, the world signed up its fifth billion mobile phone user in July -- less than two years after the fourth. Not many industries can grow to such a scale, at such a pace. However, most of the new mobile users are from emerging markets. For developed markets, like America, growth numbers have slowed rapidly or even remain stagnant. Yet, the mobile industry in America is still growing: it grows by extracting more revenue from existing users and not from subscriber numbers alone. Apple, with its user-friendly iPhones – and now, iPads – are in a sense, creating new growth (and revenue) for the industry with the creation of an attractive ecosystem that sells all the music and applications that mobile users would otherwise have not spent their money on.

Thus, with the right ideas and products, companies in advanced economies are by no means staring at their looming demise. Rather, a pattern of sorts is forming: companies in advanced economies are exiting traditional industries and moving on into new industries, creating new markets, said Sheth. On the other hand, companies from emerging economies are moving in – very often, in a big way – into the space vacated.

In recent years, Chinese and Indian companies have developed big appetites for acquisitions. They did not limit their hunts only within their own domestic markets or other emerging economies. Rather, they have been setting their sights far and wide, snapping up companies in developed economies. There is a growing list of high-profile examples. In 2006, India's Tata Steel bought its Anglo-Dutch rival, Corus, for US$7.6 billion. That was not the first major acquisition by the Tata Group conglomerate. Tata Tea, in 2000, took over UK's Tetley Tea for £271m – marking, what was then, the largest takeover deal in Indian corporate history.

Yet, getting bought over is not necessarily a bad thing for advanced economies. The targets tend to be like those in manufacturing which advanced economies already wanted to leave behind anyway, so that the whole economy can give more attention to newer areas, especially those in the service industries such as healthcare and education. According to Sheth, these are areas where advanced economies command "enormous advantages" on a global basis, where emerging economies find it hard to match. In contrast, in manufacturing, differences in cost between the two sides can quickly put companies in advanced economies at a big disadvantage.

As a result of this shift, for companies with the presence in both developed and emerging economies, more and more of their marketing ideas will originate from the latter. Traditional methods and strategies of advertising, promotion, pricing, branding, distribution and definition of market segmentation, will originate from emerging economies.

During his talk, Sheth cited the example of Avon Products, an American direct seller of beauty products to women in more than 100 countries. Within its home market, Avon found its traditional method of selling via door-to-door becoming less effective. However, it was a great success when applied in emerging markets, as its sales agents who do the door-knocking are sufficiently hungry and full of entrepreneurial zest to bring in the numbers. Brazil, for one, with an army of one million sales agents (out of the company's worldwide total of some 6.2 million), has overtaken America as Avon's largest market.

Cultural fusion

Changes in marketing practices and strategies will not be confined to just businesses and industries. The change is also being felt in areas like the arts, in what Sheth calls "a fusion of cultures". "Any nation that rises economically becomes very important culturally," he said. Thus, the world is starting to see some aspects of the rich culture and traditions of China and India -- backed by their millenniums of history – becoming mainstream in the Western world.

The film industry, for one, has produced successful examples in this regard. "Slumdog Millionaire", a worldwide hit that took home eight Oscars, is not a traditional Indian movie per say, even though it spins the almost fairytale-like story of a teenage boy from a Mumbai slum made good. The film was produced by British studios, adapted from a novel written by an Indian, jointly directed by a Brit and an Indian, and went on to charm audiences worldwide. Along the way, the movie introduced an image of India that is not framed within the traditional Bollywood stereotypes. "The way 'Slumdog Millionaire' was created is like a fusion of the West and the East in many ways," said Sheth.

This should not be a one-hit wonder. The prolific Indian and Chinese movie industries are likely to tap and improve on the same formula and create more movies that will gain widespread acceptance by the Western markets. Actors in the movies will not just speak Hindi or Mandarin but English. "You will see that kind of innovation taking place and innovation will become the driver ultimately," said Sheth.

The "show-stopper"

For now, it takes an extremely stubborn (or ignorant) person not to buy into the story of China and India's economic resurgence and growing influence over the rest of the world. However, while these two economies loom ever bigger, there are likely stumbling blocks along the way. From Sheth's point of view, the real "show stopper" in the rising influence of China and India will not be their relative backwardness in technology, gaps in knowledge, management skills or even some other geo-politics factors. Rather, it will be issues revolving around the environment, he said.

"The only thing that will stop these two countries from growing economically is not technology: they have access to technology or they create their own. It is also not capital: they have plenty of money. It is going to be the environment," he said.

China, for one, has already recognised the severity of environmental issues, and has introduced policies to address them. "China is saying: 'We have to learn before it gets too late' and India is coming along but not as much to the same level," said Sheth.

Environmental issues, in this case, are not just about the way both giant economies impact the world around them with their heavy consumption of resources all kinds – and the attendant impact. There will be implications from the way China and India behave and position themselves on the world stage, as they search far and wide for minerals, energy, and all kinds of commodities to feed their economic juggernaut.

As a result of this hunger for resources, China and India will no longer just be seen as cheap production centres, nor big consumers markets. The two countries are becoming trading heavyweights, exerting their influence on resource producing countries as any major customer will do. Africa, for one, is where Chinese and Indian companies are actively strengthening trade, economic links and signing multi-billion dollar deals. It is not too difficult to imagine the influence this quest for resources will have on all the suppliers, partners, competitors and regulators involved. In the process, as China, India and other emerging markets forge tighter links, the risk that companies from advanced economies need to face is to make do with ever smaller pieces of the action than what they hope for in what many still see as their former colonies.

Riding on the crest

Should companies from advanced economies be worried? Not necessarily. The rise of China and India is not signaling the start of their long-term decline. According to Sheth, if they play their cards right, global names like General Electric, HSBC, Mercedes Benz, Siemens, Alcatel and many others will find rich opportunities as they hook on to new opportunities created by China and India, and flourish along. To a large extent, the degree of their success depends on the speed in which they take part in the development of these two emerging giants.

Meanwhile, companies all over the world, keen on riding on the crest of opportunities, will need to rethink and reshape the way they do business.

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