Doing Business in Emerging Market: Successful Strategies

Manuela EPURE¹, Aurelian A. BONDREA²

¹Spiru Haret University, 13 Ion Ghica Street, Bucharest, 030045, Romania
Tel: +40213169115, Fax: + 40213169115, Email: mepure.mk@spiruharet.ro

Abstract: Doing business today become a very challenging endeavour, drivers such as globalization, technological changes, economic crisis, just mention a few are changing the competitive game. Successful firms, appear to be those that demonstrate a real capacity to compete “differently” and especially to innovate in their business models. Emerging markets are seen now as a unique environment which requires a systematic approach, in developing novel business models and strategies. Going global is one thing but targeting emerging economies is quite a different story. It is a real need to develop strategies for doing business in emerging markets that are completely different from those used in their home country. The successful companies customize their strategy implementation to fit the nation’s institutional context. Adapting constantly their strategies seems to be the best way to cope with unexpected market developments.

Keywords: emerging markets, business strategy, business model, globalization, competitiveness.

JEL classification: M16, M31, F61

Introduction

Going global is important for any firm wishing to expand her operations and to generate significant profits. But the decision is not a simple one, managers should carefully consider which markets to be targeted, to chose between the developed countries markets, well know by them or the emerging countries markets, more rewarding in term of profits but equally challenging and hard to predict. Their current business model becomes inappropriate and requires a series of innovations, mainly at strategic level. The paper is

² Spiru Haret University, 13 Ion Ghica street, Bucharest, 030045, Romania, Tel: +40213169115, Fax: + 40213169115, Email: rector@spiruharet.ro
tackling the business model innovation process, especially how the business cycle is running in those special conditions of an emerging market. Innovating the business models firstly means to analyse carefully the business environment, to understand it and to apply smart solution to cope with the specific challenges.

1. Generic Strategies Targeting Emerging Markets

The opening of the large economies (e.g. China, Brazil, India etc) to global capital, technology, and talent over the past two decades has fundamentally changed their economic and business environments. As a result, the GDP growth rates of the emerging markets countries have dramatically outpaced those of more developed economies, lifting millions out of poverty and creating new middle classes—and vast new markets for consumer products and services. Large, low-cost, and increasingly educated labour pools, meanwhile, give these markets tremendous competitive advantage in production, and information technology is enabling companies to exploit labour in these markets in unique ways [Blinder, 2006]. According to International Financial Corporation, a member of World Bank Group, an emerging market is “a market which is growing both in size and in sophistication degree, as opposed to a small market – which is inactive and doesn’t seem to change”. Intuitively, managers know that operating a business in an emerging market is different from doing so in a developed country [Khanna & Palepu, 2010].

A new market entry requires a new approach in strategy mainly because of a wide range of problems need to be solved. Some of these problems are:

- The need of a consistent analysis of different markets e.g. the product/service market, the financial market, the labour market;
- The relationship with the emerging and reformed formal institutions that might affect business;
- Identifying and addressing the influences from the emerging mixes of traditional local culture and modern global culture;
- Building a strategy that can applied in different sections of the transforming society;
- The need to build a trust relationship with authorities play such an important role for business;
- Positioning towards social and natural environmental problems in these countries that are represented by emerging social groups (stakeholders) e.g. various non-governmental organizations (NGOs) [Jansson, 2007].

Solving these problems turned to be much difficult then one can imagine, therefore a strategic approach is needed. International business strategy built for mature markets are less applicable and a constant need for adjustment is necessary. Meyer [Meyer, 2004] concludes after overview of international business research on transition economies that the distinctiveness of business system in CEE limits the transferability of western business strategies and organizational concepts: strategies observed in emerging economies differ from those in developed economies. Other experts reveal the fact that strategies applied successfully in one country may fail in another. Corporate strategies in the emerging economies can thus be explained only by incorporating the specific institutional context in the analysis [Meyer, 2004].
The decision to enter an emerging market is not based solely on the opportunities that can be easily identified, business executives usually analyse the macroeconomic indicators such as GDP, the growth of per capita income, the exchange rates and purchasing power parity indices. To complete the picture, managers consider the nation’s standing on the World Economic Forum’s Global Competitiveness Index, the World Bank’s governance indicators, and Transparency International’s corruption ratings; its weight in emerging market funds investments; and, perhaps, forecasts of its next political transition.

From strategic point of view, executives may choose one of the following strategies: to adapt their own successful strategies, to change the contexts in which they run the regular operations or simply stay away for a while and keep under observations the emerging market [Khanna & Palepu, 2005].

Business Cycle seems to be quite different in an emerging market; the main characteristics are consumption volatility that exceeds income volatility and “unexpected stops” in capital inflows. These features are not specific to small open economies and highlight the uniqueness of emerging markets. A second approach in the literature relies on market imperfections to explain countercyclical current accounts. An important early paper [Atkeson, 1991] examines the ways in which capital markets are subject to an asymmetry of information. Another interesting paper [Neumeyer et al. 2007] also refers to the business cycles in emerging markets, emphasizing the movements in interest rate and investments preferences. A real question is whether a standard real business cycle model can qualitatively and quantitatively explain business cycle features of both emerging and developed small open economies (SOE). Emerging market economies on average have a business cycle two times as volatile as their developed counterparts [Aguiar & Gopinath, 2005].

All these discussions demonstrate the critical importance of knowing about the environment of emerging country markets, also to be able to understand, analyse and execute business operations in this international context. The main issue of adaptation of local conditions implies, for example, how much a multinational company should adapt operations to the different international environment or build global competitiveness from local sources. Analysing this specific environment constitutes the basis of international business strategy, and also is creating a foundation for business operations in emerging country markets. Basically, analysts try to answer to the following questions [Jassons, 2007]:
- What the markets look like?
- How to compare them?
- How to analyse their development\how to compete and gain sustainable competitive advantages?

2. Innovative Business Models

The capacity of a firm (or nation) to capture value will be deeply compromised unless the capacity exists to create new business models [Teece, 2010]. CEO’s seeking and considering improvements to their company’s business models are engage in doing improvements that add value for customers at all times, but that it can be difficult to achieve. Changing the company’s business model means to reformulate the paradigm by
which it goes to market, but internal inertia can be really considerable. Nevertheless, it is preferable for the company to initiate such a change itself, rather than have it dictated by external events [Teece, 2010].

Further, it will be examined why innovation is important for the business model, what are the possibilities to innovate in the existing business model, how is responsible to understand when is needed a major change and how can it be possible to implement the change knowing that most of the time companies are reluctant to major changes, especially when the company’ positioning is favorable on the market.

Usually, a business model juxtaposes two systems: a system of activities and a system of relationships.

Businesses executives should examine the social context in which internal and external transactions occur in order appreciate the critical dynamics of organizational change that must accompany the business model innovation [Santos et al. 2009]. Innovation is considered important in supporting the company’s performances and profitability; therefore it is normal executives to be interested in innovation and not only at technological level. It is completely wrong to see technological innovation as the only way to change company’s performance. Innovation at the level of the business model means much more, it is about strategy renewal and furthermore is about identifying the knowledge existing inside the company and used as valuable asset – we are talking about the intellectual capital.

Business model innovation offers new opportunities for value creation but the true cost of value creation is the cost of organizational change. The real challenge for BMI exists especially for the incumbent firms; the resistance to change should be overcome.

Therefore, Business Model Innovation can be define [Santos et al.2009] as a reconfiguration of activities in the existing business model of a firm that is new to the product/service market in which firm competes. Quite often, business model innovation refers at importing a business model from one product/service market into another, not all the time functioning with the expected results.

Analysing closely, what really define a business model innovation; one can understand the reconfiguration of the activities based on the following approach:

- Relinking – the organizational units in a different manner to give them new chances to perform not only as separate units but also as a system interconnected
- Repartitioning – an alteration on cultural and physical institutional boundaries of the units that are currently performing activities
- Relocating- the distance between organizational units is reconfigured
- Reactivating – modification of the current set off activities that compose the existing business model.

Innovation of the business model doesn’t mean a simultaneous adoption of all four above decisions, sometime innovation means to due small changes in order to reinvent the
business with significant improvements in profit generation. The strategy should changed also, mainly because interfere in innovation of the business model; a new strategic positioning seems to be necessary.

Strategic positioning is usually employed to achieve sustainable competitive advantage by preserving what is distinctive about a company. It means performing different activities from rivals, or performing similar activities in different ways [Porter, 1996]. Positioning—once the core of strategy—become inadequate being considered too static for today’s dynamic markets and changes occurred at technological level. According to the new studies, competitors can rapidly copy any market position, and competitive advantage is, at best, temporary.

Innovate the business model also means to improve company’s competitiveness. Today, a competitive strategy concentrates to make the company’s offer really different than rivals. It means deliberately choosing a different set of activities to deliver a unique mix of value.

“A company can outperform rivals only if it can establish a difference that it can preserve”, says Michael Porter. Business success today is related, in a greater extent, to the firm’s capacity to differentiate itself from the main competitors, to offer value at a fair price and to fully meet the clients’ needs and expectations.

One secret to maintaining a thriving business is recognizing when it needs a fundamental change [Johnson et al., 2008]. This change is related to the business model innovation, but true innovation success stories are seems to be rare. A recent study on major innovations within existing corporations, located in USA, shows that, in the past ten years, precious few have been business-model related.

The American Management Association study showed that no more than only 10% of innovation investment at global companies is oriented on developing new business models. Therefore, it is not surprisingly that a consistent change into a company’s business model doesn’t occur often and doesn’t bring profits overnight. Research² have shown that over 50% of executives believe business model innovation will become even more important for success than product or service innovation. In this context, it seems that the decision to innovate the business model should be carefully adopted.

The business model innovation it is a hot topic but very little formal study has been done into the dynamics and processes of business model development. Johnson et al. suggest that is a need to follow a certain roadmap in developing a business model, and this roadmap consists of:

² Economist Intelligence Unit conducted a survey in 2005 on the business innovation topic
to realize that success starts by not thinking about business models at all. It starts with thinking about the opportunity to satisfy a real customer who needs a job done.
- to construct a blueprint laying out how your company will fulfill that need at a profit.
- to compare that model to your existing model to see how much you’d have to change it to capture the opportunity.

An important question arises: When a New Business Model is needed? Creating new growth requires venturing not only into unknown market territory but also into unknown business model territory.

Most of the time success is not depending solely of the company’s business model or her capacity to innovate, there are external factors affecting the business growth.

Conclusion

Literature and case studies review emphasize the fact that being successful on emerging markets seems to be a challenging endeavour, successful companies in their home countries realise that they can’t export their business model as it is. Only those capable to innovate seem to enjoy significant profit gains. Innovation is more likely to generate positive market positioning if it occurs in additional services not in products’ quality or in strategies not neccessary in advertising.

References