Editorial: Marketing Science in Emerging Markets

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Abstract

In this editorial accompanying the special section on Marketing Science in Emerging Markets (MSEM), we describe how research on emerging markets can contribute to richer theoretical and substantive understanding of markets and marketing. Such research can also aid in providing managerial guidance on how to operate in emerging markets. We conclude with a description of the selection and review process for the special section and an overview of the four papers being published.

1The Special Section was commissioned by Editor-in-Chief Preyas Desai, with Kannan Srinivasan and K. Sudhir as Special Section Co-Editors. Laxman Narasimhan joined Srinivasan and Sudhir on this editorial at their invitation to add his practitioner perspective.
1. Introduction

Emerging markets account for 65% of the world’s population and 40% of the world’s economic output today; yet a rigorous research based understanding of these markets remains limited. As the share of emerging markets in economic output continues to rise, research on emerging markets is increasingly critical to academics and managers. Beyond providing managerial guidance, research can expand our substantive and theoretical knowledge of markets and marketing by helping us ask and answer new questions related to consumers, cultures, institutions and regulation. From an academic perspective, this is an exciting prospect. We hope this Special Section on Marketing Science in Emerging Markets (MSEM) serves as a catalyst to encourage scholarship on emerging markets.

The rest of the editorial is structured as follows. Section 2 summarizes our thinking on how emerging markets can contribute to improving our understanding of markets. Section 3 summarizes the papers in the special section and how it fits in with the ideas described in Section 2. It also describes the process by which these papers were chosen for the special section. Section 4 concludes.

2. The value of research on emerging markets

We structure our discussion of how research on emerging markets can aid our understanding of markets and marketing into five categories. These include heterogeneity in market conditions and institutional environments, a still sizable segment of the poor, despite a rapidly emerging middle class, and fast changing dynamics in market conditions and institutional environments. We then consider how these market and institutional characteristics can help us to answer new research questions around supply behavior and firm strategies. Finally, we discuss opportunities around marketing research approaches; including developing new tools to overcome deficiencies in data infrastructure and the rise of new data sources, which can make investments in traditional data infrastructures less relevant. Throughout, we illustrate examples and potential opportunities for research

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2 Emerging markets are fast growing, developing countries that are creating a rapidly expanding segment of middle class and rich consumers, but still have sizable segment of “poor” consumers at the bottom of the pyramid. The so-called BRIC countries—Brazil, Russia, India and China, and countries such as South Africa, Mexico and Turkey fall in this group. Morgan Stanley Capital International includes 21 countries from Asia, Latin America, Eastern Europe and Africa in its global emerging market index based on size, liquidity constraints, and market accessibility criteria. The index is widely used by fund managers in constructing ETFs.
and highlight how such research can expand our theoretical and substantive understanding of markets and marketing.\footnote{3 Some issues discussed in this section are elaborated in greater detail in Sudhir et al. (forthcoming).}

\textit{1. Heterogeneity in market and institutional environments across and within emerging markets}

Socio-economic conditions and cultures vary significantly across emerging markets. Further, there is significant variation within the economic and political sub-units (e.g., provinces, states) within these countries. Such heterogeneity in market environments allows researchers to test the effects of variables that have previously not received much academic attention, because developed markets did not have meaningful variation on these variables. Empirical results related to these new variables can therefore aid overall theoretical development in consumer behavior and marketing strategy.

To be specific, the hard infrastructure available to consumers in terms of transportation, electricity, phone and broadband connections vary substantially and can explain the variation in consumer needs and consumption choices for many categories across and within countries. For example, lack of fixed telephone lines has led to the rapid adoption of cellphones in many emerging markets, even among the poor (Jensen, 2007). The brisk spread of mobile money in African countries, especially Kenya is due to the under-provision of banking infrastructure in those economies (Jack and Suri, 2014).

Besides the market environment, institutions also vary substantially across emerging markets. Lack of credit rating agencies, banking infrastructure, high levels of corruption and weak enforcement all affect consumer choices and the appropriate business models suitable for these markets. Weak legal institutions can lead to the development and persistence of market protocols which, from a developed country perspective, may seem primitive or otherwise “second-best.” Firms may either choose to circumvent these institutional voids or make private investments to create the necessary infrastructure. Strategies like Unilever’s “Project Shakti” distribution plan that use underemployed, moderately educated women to reach rural markets in India are a solution to the lack of other cost-effective distribution strategies (Rangan and Rajan 2005). The use of e-Choupal service by ITC India, which allows farmers to gain access to price information
in neighboring markets helped ITC to source soyabeans from farmers in rural markets who were assured of a good price, at reduced transactional costs (Goyal 2010).

Many emerging markets are characterized by lack of trust necessary to facilitate market exchanges. In the absence of trust, firms like Alibaba have to provide their own escrow services to facilitate transactions in China. In India, lack of trust and credit card penetration has led to “cash on delivery” as the most popular payment mechanism in e-commerce. Lack of individual credit ratings has led to greater reliance on pre-paid cellphone plans in emerging markets relative to developed markets. As such, understanding multi-channel strategies in emerging markets need to take into account the background around legal institutions and logistics infrastructure (or lack of), which may be abstracted away when studying developed markets, as such institutions may be better developed.

Lack of (or excessive) regulation, corruption and weak enforcement of laws can all lead to distortions in market outcomes and create barriers to entry. Sudhir and Talukdar (this issue) exploit heterogeneity in economic and institutional environments such as the extent of corruption and tax law enforcement across the different states of India to identify corruption and transparency as a new predictor of IT adoption among businesses in India. Similarly, Qian et al. (this issue) exploit institutional voids in terms of extent of copyright enforcement in their study of branded versus counterfeit choice.

2. Sizable share of the poor, large size (though small share) of the very rich

Despite rapid economic growth, large segments of emerging markets remain poor with incomes less than $2 a day (the World Bank defined poverty line). Prahalad (2006) popularized the phrase, “bottom of the pyramid” to describe these customers and inspired the idea that this segment of customers represent a profitable untapped market. Furthermore, the welfare consequences of increased penetration of new health, agricultural and financial products and technologies that can be facilitated by appropriate marketing is potentially enormous.

It is important to recognize two key factors that distinguish the decision making behavior of the poor relative to the middle class. First, stringent resource and institutional constraints affect the purchase decisions of the poor: in terms of what they buy and how
they finance the purchase. Second, the institutional environment and scarce cognitive resources (Mullainathan and Shafir, 2013) affect the preferences of the poor. In the absence of trust and institutional protection, the poor may exhibit greater risk aversion, reliance on informal social networks to address various risks (e.g., income and health), and social learning through informal networks may become more important. Mobarak and Miller (this issue) address the issue of how learning about new technologies happens through social networks or opinion leaders among poor rural Bangladeshi households.

Relatedly, the rapidly expanding rich in emerging markets provide new opportunities to study luxury consumption among the “new rich,” who use consumption to signal status and success. Given the large populations in China and India, even a small share of the rich segment can translate to large numbers of rich relative to many developed countries. For instance, almost all luxury marketers are investing in China as it has grown to become the largest luxury market in the world. The role of counterfeits in status signaling, when the market is still developing its tastes has arisen as an important element and consideration in the marketing of luxury goods—an issue addressed in Qian et al. (this issue).

3. **Fast Dynamics in emerging markets**

The dynamic nature of emerging markets creates temporal variation in economic conditions, urbanization, migration and even development of new institutions. The temporal variation in the environment facilitates greater theoretical and empirical understanding of these markets. As such, the fast pace of change in these markets make them the equivalent of “fruit flies” in biological research for economics and other social sciences.

As consumers in emerging markets move across socioeconomic classes due to growing incomes, emerging markets become viable areas to test whether previously observed “cultural” differences (e.g., Western markets are independent, while Eastern cultures are interdependent) may actually be an outcome of economic or institutional differences. For example, as emerging markets grow and new institutions develop, it may be possible to test how much of the higher inter-dependence in Eastern cultures are due to economic constraints and lack of institutions requiring market based solutions (e.g.,
banking, child care), which make people more dependent on social networks, thus creating interdependence. The rapid diffusion of online social networks in both emerging and developed markets makes social networks more observationally transparent and makes it feasible to empirically test predictions about the role of independence and interdependence for various types of consumption outcomes.

Rising urbanization and mobility mold consumer preferences, consumption patterns and have broader socio-cultural impacts. Consequently, they can be useful for researchers interested in studying the linkages between these changing characteristics of emerging markets and socio-cultural effects. For example, Qian et al. (this issue) address the issue of “status signaling” in the consumption of branded and counterfeit goods, in a rising income environment, where social status is in flux, and knowledge of brands is evolving. They investigate how branded firms should differentially invest in quality through conspicuously visible attributes as opposed to experiential attributes.

4. Firm Strategies

Thus far, we have discussed how heterogeneity and dynamics in the marketing (socio-cultural, economic) and institutional environments can help us understand market outcomes across consumer markets (the rich, the middle class and the poor) and business markets. Such differences on the demand side also provide opportunities for firms to develop strategies that are different from those used in the developed world. This provides new opportunities for marketing science researchers to investigate firm strategies using game theory and empirical research methods.

In practice, managers highlight a few key challenges in doing business in emerging markets. These challenges can be tied the issues of heterogeneity and dynamics in these environments discussed above. First, the large heterogeneity across and within emerging markets leads to a “standardization-localization” challenge for multinationals operating across multiple markets. While localization is useful in meeting customer preferences, it also increases operational complexity; hence the need to standardize. Court and Narasimhan (2010) provide a taxonomy of strategies in addressing the standardization-localization across categories and countries. Companies such as GE, P&G, Unilever and PepsiCo are restructuring R&D and innovation infrastructures to create products that
meet the localized needs of emerging markets at prices that would build large enough markets, rather than simply tweaking and de-featuring their existing products designed for developed markets. In fact, such innovations with a new set of constraints posed by emerging markets have led to reverse innovations—where these products have helped spur growth even in developed markets (Govindarajan and Trimble, 2013).

Second, institutional, infrastructural and regulation voids and differences require firms to change their marketing and operational strategies when reaching out to emerging markets. In the earlier section, we mentioned Unilever’s Project Shakti to reach rural markets in India, ITC’s e-Choupal to provide price information in the absence of reliable Internet connections in rural India, and Alibaba’s escrow services to address the trust void in China. McDonalds completely vertically integrated their supply chain in Russia to ensure reliable supplies to address logistics voids. Many organized retailers are creating their own cold chain infrastructures in China and India (e.g., Metro Cash and Carry) as logistics companies are only now beginning to create such infrastructures. (Court and Narasimhan 2010). While much of the focus currently is on the mega cities in emerging markets, the absence of retailing infrastructures in second tier cities and rural markets can also make online shopping more relevant to the wealthier people in such markets (e.g., Forman et al. 2009); online marketers may be able to aggregate the vast and widely dispersed wealthy in second tier and rural markets to create viable business models.

Finally, fast changing dynamics in incomes, urbanization and mobility of consumers in emerging markets leads to rapid outdated of segmentation schemes that are the bases of firm marketing and organization strategies. Atsmon et al. (2012) advocates use of mega-city cluster based segmentation in the face of rapid urbanization in China to reach second tier cities. These strategies can also help balance organizational complexity even as firms localize strategies, by creating similar strategies around geographically contiguous areas. Nevertheless, such recommendations deserve additional empirical scrutiny.

We hope the challenges listed above will motivate new research that provides managerial guidance to firms operating in emerging markets. For example, Zhang (this issue) addresses how firms can respond with investments in brand quality or positioning strategies to the strong preferences for foreign brands and low opinions of domestic
brands among emerging market consumers. Similarly Qian et al. (this issue) considers how firms can respond with quality investments and pricing responses in response to counterfeiting that arises when enforcement budgets change.

5. Market Research in Emerging Markets

A major challenge for managers making decisions in emerging markets is that the data tends to not be as detailed or at the same level of reliability as in developed markets. For example, given that organized retail penetration is much lower in many emerging markets, brand sales data cannot be simply obtained through scanners. Sampling approaches to estimate sales in mom and pop stores are necessary to obtain sales estimates. Standard decision making tools for promotion planning in developed markets are not very reliable when the underlying data are suspect. New tools that address data deficiencies and concerns in emerging markets need to be developed.

As with developed countries, sales through online channels are much more easily recorded. Even though shares of such sales are at present insignificant, it may be useful to assess whether online data can serve as leading (even if noisy indicators) of potential success of products in emerging markets. More broadly, communications and word of mouth on online social networks such as Facebook, Twitter may have different predictive power for different socio-economic segments. The use of qualitative data through text analytics generated online has been of great interest across the marketing research community in both developed and emerging markets. Given such new data sources, it may not be necessary to invest in traditional data infrastructure which were developed in the absence of newer data. Understanding and validating how new sources of data can augment the limitations in traditional data infrastructures in emerging markets can be a fruitful endeavor for marketing science scholars.

Given challenges in obtaining secondary data, and the relatively low cost of products (e.g., cookstoves, bednets, medicines etc.) being marketed among the very poor, scholars in development economics have focused on the use of field studies through randomized control trials. Even though the products are relatively inexpensive, the total cost of doing these studies is very high; such studies are typically supported by large grants from various foundations and government institutions. Mobarak and Miller (this issue)
illustrate such field experiment approach where a real product (cookstove) is distributed in a realistic setting across multiple villages in rural Bangladesh using alternative persuasion approaches. In contrast to development economists, marketing scientists typically piggyback on firms marketing in real settings to do field experiments; therefore the incremental costs of market research studies tend to be relatively low. We hope marketing scholars can contribute significantly to the scholarship of marketing in developing countries and to the poor, by partnering with firms and NGOs who already market their products/services, restricting the incremental costs to only design and execution of the research experiment.

3. The Special Section

We briefly describe the review process for the special section and provide a brief summary of the papers being published in the special section and how they fit within the overall structure described in the last section.

**Process**

The four papers being published in this special section are those that survived a two-stage process—including the standard Marketing Science review process. In the first stage, from 53 papers submitted, seventeen papers were chosen for presentation at the MSEM Conference held at Wharton in September 2012. All seventeen papers presented were invited to submit the papers for potential publication in Marketing Science subject to the standard Marketing Science review process. Of the thirteen papers submitted, the four papers in this special section survived the review process. We believe these published papers demonstrate that emerging markets research can sustain the highest levels of quality, while addressing a range of new substantive issues relevant to emerging markets. We hope these examples inspire young scholars and doctoral students to take up the challenge of internationalizing the Marketing Science discipline and see research on emerging markets as an opportunity to add theoretical and substantive knowledge to the discipline through high quality, high impact research.

**Summary of the papers**
The four papers in the special section address different subsets of the characteristics of emerging markets we described in the last section. The first two papers address issues of technology adoption—one among poor consumers and the other among businesses by exploring particular issues relevant to emerging markets. The next two papers address how firms address particular marketing challenges arising in emerging markets—counterfeiting and negative “emerging” country of origin effects.

Miller and Mobarak address adoption of two types of non-traditional cook stoves among poor consumers (BOP) in rural Bangladesh. One stove promised “efficiency”, i.e., fuel savings and the other health benefits by reducing indoor air pollution. Given that over half of the world’s population uses traditional cook stoves, they are seen as a significant source of global carbon emissions and respiratory illnesses; increasing adoption of non-traditional cook stoves through better marketing has been a priority for both organizations and governments seeking to mitigate climate change and risks to global health (World Health Organization, 2002).

Using a clever two-stage randomized field experiment, the authors study the effects of observational and social learning (and distinguish it from homophily) on cookstove adoption among the poor. In the first stage they study the effect of observational learning by informing consumers about the adoption of cook stoves among opinions leaders. In the second stage, they identify social learning (and distinguish it from homophily) by randomizing price discounts and thus adoption in the first stage among people belonging to the social networks of those whose adoption are measured in the second stage. They find that observational learning from opinion leader adoption and social learning are much greater for the “efficiency” stove which involves an experiential attribute. In usage, the health claims were experienced, but fuel efficiency claims were dubious and the information was transmitted effectively through social learning to suppress adoption. The paper highlights the negative effects of word of mouth for products that do not match well with local consumer needs.

Sudhir and Talukdar illustrate how the market environment and (lack or failure of) institutions in emerging markets—in particular corruption and patchy enforcement of tax evasion laws—can aid in generating hitherto unexplored explanatory variables to explain technology adoption. The paper addresses a unique tradeoff in the adoption of IT by
businesses in emerging markets—while IT can enhance productivity, it can also increase business transparency and easy detection of tax evasion. Given the variation in the levels of corruption and enforcement, easier detection puts a business at a competitive disadvantage with respect to those who do not adopt IT.

The paper finds that corruption reduces IT adoption while better enforcement increases IT adoption. Second, failure to control for this aspect of the marketing environment underestimates the productivity gains from IT adoption, as failure to adopt is otherwise attributed to low productivity gains. The paper has broader business strategy and policy implications. It provides an empirically grounded explanation for why emerging market firms often choose to remain small (“Peter Pan syndrome”) and outside the formal sector, with large implications for the tax base and economic growth of emerging markets. More broadly, it shows that the pernicious effects of corruption on the growth trajectories of emerging markets are more widespread and less visible than might have been previously recognized.

Qian, Gong and Chen address the issue of counterfeiting—a major challenge for branded firms in emerging markets. The paper continues a research stream begun in Qian (2008). The current paper addresses several characteristics associated with emerging markets: heterogeneity, dynamics and lack of institutions. With unevenly rising incomes (heterogeneity and dynamics), social position is volatile; the emerging middle class in emerging markets has an even higher need to signal “status” than in developed markets and often do so through conspicuous consumption of expensive branded goods. However, the lack of well-developed enforcement institutions and the relative lack of sophistication among consumers make counterfeiting common in emerging markets. The issue is particularly relevant in China, which as the base of outsourced manufacturing for the developed world, has considerable capacity to create high quality counterfeits relative to other emerging markets.

The paper addresses how branded firms should change their product quality—specifically through investments in experiential attribute quality versus search attribute quality and prices in response to counterfeits. As experiential quality (functional attributes) of brands is not visible, but the search attributes (appearance) are visible, a consumer who merely cares about signaling can choose counterfeits as long as the overall
probability of counterfeits is low. A key prediction based on the game theoretic analysis of equilibrium firm behavior is that branded firms will invest in search attributes in a separating equilibrium when the cost of replicating such attributes for counterfeiters are high. They test and find empirical support for this prediction in the Chinese shoe market, taking advantage of an exogenous drop in level of government copyright enforcement for shoes. Specifically branded companies improved search attributes such as shoe materials and appearance, but not experiential attributes such as sturdiness and flexibility. In this separating equilibrium, authentic prices also rose as counterfeit entry increased due to reduced enforcement.

Finally Zhang investigates an interesting branding problem around country of origin effects for emerging market firms. Consumers have a strong preference for foreign brands, and negative country of origin priors for emerging market products. Firms can invest in quality, and this can improve the country of origin prior overall for all firms from the emerging market—but this leads to free riding among the firms and overall less than efficient investment in quality. Alternatively, the firms can position their brands dissociating from the country of origin through brand name choice and advertising; this dissociation is particularly valuable for the high quality firms who are hurt most by negative country of origin prior.

A key insight is that while early on high quality firms will dissociate, the inability to free ride will cause the remaining firms to invest in quality; and at some critical point the overall quality of emerging market firms will rise enough that the need to dissociate will go down. The analysis provides insight on how now developed countries such as Japan and Korea grew over time to their current high levels of quality, and suggests that in time Chinese and Indian products may gain in quality through just competition between domestic and foreign firms in the domestic market.

The papers in the special section cover multiple countries (Bangladesh/India/China), markets (consumer/business; rich/middle-class/poor), and methodologies (field experiments/econometric analysis/game theory), giving an illustrative sense of the range of potential questions and approaches that can be addressed by research across multiple emerging markets. Table 1 summarizes these key elements of the papers.
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4. Conclusion

In a provocative critique, Henrich et al. (2010) dubbed the traditional subjects of most social science research as WEIRD (Western, Educated, Industrialized, Rich and Democratic), and encouraged scholars to push inquiry beyond the “WEIRD” in developed markets. As we describe above, the differences in behavior among consumers and firms across countries may not only be due to differences in culture, but due to differences in the socioeconomic conditions, institutions, social and hard infrastructure. Rapid changes in the socioeconomic conditions, institutions, social and hard infrastructure also provide us great opportunities to test a variety of causal linkages. We also discussed various strategic responses by firms in response to differences in environmental conditions both from an academic and practice perspective.

We reiterate that studying the combination of consumer and firm choices in response to a more heterogeneous and dynamic set of environmental contexts across emerging and developed markets can serve to expand the scope of both theoretical and empirical enquiry-- enriching and deepening our understanding of markets and marketing. As such, we hope the papers in this special section serve as a catalyst towards internationalizing marketing research and enriching the field of marketing science.
References


