EMERGING MARKETS: A REVIEW OF CONCEPTUAL FRAMEWORKS

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Abstract

The most promising markets for doing business in future, for the world’s most competitive companies, are the so-called emerging markets (EMs). According to the US government estimates, only 10, the most attractive emerging markets, called by Clinton’s administration Big Emerging Markets (Garten E.J., 1996), will double their share of global GDP in next 20 years, from 10.2% to 20.7%. As industrialized countries continue to mature (estimated growth at average of 2% per year), EMs, which express high rate of growth (12% per year), and have huge room for extreme growth, have become increasingly more attractive and promising for Western multinational companies. The paper reviews the conceptual frameworks to EMs, applied in the process of evaluation foreign markets by MNCs, which treat EM as a distinctive type of market compared to a developed market. The purpose of this paper is to increase the consciousness of EMs as a distinctive type of market from MNCs point of view and enrich the further development and refinement of the conceptual frameworks to EMs research.

Introduction

The most promising markets for doing business in future, for the world’s most competitive companies, are the so-called emerging markets (EMs). According to the US government estimates, only 10, the most attractive emerging markets, called by Clinton’s administration Big Emerging Markets (Garten, 1996), will double their share of global GDP in next 20 years, from 10.2% to 20.7%. As industrialized countries continue to mature (estimated growth at average of 2% per year), EMs, which express high rate of growth (12% per year), and have huge room for extreme growth, have become increasingly more attractive and promising for Western multinational companies. They are “a magnet for the world’s most competitive companies from the U.S. and abroad.” (Garten, 1996, 7).
Doing business in EMs give to MNCs a lot of advantages. Here is a list of some of them (Miller, 13): added sales volume; economies of scale; increased profits; improved competitive ability; reduced market dependence; improved immunity to cyclical fluctuations; stabilization of production schedules; reduced effect of market saturation; prolonged product life cycles; enhanced investment profiles; greater growth opportunities; reduced level of competition; possibility of large potential markets; and reduced costs of market entry.

Doing business in EMs is a new experience for most MNC, which have been focused on the developed part of the world. Business shift to EMs for most of them is only shift to new foreign markets. That is the reason why most of them use the same conceptual framework in the process of international market selection. But it could be a mistake. EMs are different type of markets compared to the markets of the developed countries, so that business potentials of EMs should be apprised using conceptual frameworks that are adjusted to peculiarities of EMs.

The purpose of this paper is to review some conceptual frameworks on EMs, stressing the fact that EMs from MNC’s point of view should be treated as a specific type of foreign market. The paper is organized as follows: First, the definition of an emerging market will be done, recognizing characteristic of “typical” emerging market and proving that EMs are different types of markets compared to the developed markets. Then, the behavior of MNC interested in doing business in foreign markets will be presented, stressing the fact that MNCs about EMs think as if they were ordinary markets. In the central part of the paper conceptual frameworks that treat EMs as a distinctive type of market will be presented in a critical way. Direction for future research will be presented in the concluding part of the paper.

I. Emerging Markets: Definition and Characteristics

Even though the word “emerging market” is an often used word in the international business literature, most authors do not give a definition of EMs, probably understanding it is known. But there is no commonly accepted definition of EM. Different authors focus on different aspects of EM, and in Table 1, some thoughts about EMs are listed.

Without an idea to submit a clear definition of EM, in our opinion only a country (EM is a market confined by political borders of an independent state) that obtains the following criteria could be recognized as EM:

a) Lower level of economic development (less-developed country), which could be expressed in GDP per capita;

b) Transitional economy (and society): government does an attempt to create a framework of a market economy (and democratic society) through an adequate economic (and political) reforms (this aspect of EM is a crucial one, i.e. EM is only a country that try to “emerge” to market economy, and democratic society, “through policies conductive to increased growth”);

c) High rate of growth, which could be expressed through GDP growth rate (it should be at least 5% per year), that is caused by a governmental attempt to create market economy;

d) A huge room for future growth, which could be expressed through difference between obtained level of economic development (also purchasing power parity could be used as a criteria) and an average GDP of developed countries. A driving force of every EM is a quality of economic (and political) reforms which is at the same time a highly risk area.
Table 1: Some Ideas about what EMs are

<table>
<thead>
<tr>
<th>Source</th>
<th>Description</th>
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<tbody>
<tr>
<td>Cavusgil (1987)</td>
<td>“EMs are high-growth developing countries that represent attractive business opportunities for Western firms”… “EMs share remarkable features in terms of economic potentials.”</td>
</tr>
<tr>
<td>Miller (1998)</td>
<td>“In spite of individual differences, all EMs are similar in their potential for future growth.”… “It is this opportunities for future market expansion that most distinguishes an emerging economy from one normally associated with less developed countries”… “these forms of economic stimulus (attracting new technologies, foreign investment, or external participation in their commercial affairs) occur only in countries with policies conductive to increased growth.”</td>
</tr>
<tr>
<td>Emerging Markets Directory</td>
<td>“Broadly defined, an emerging market is a country making an effort to change and improve its economy with the goal of raising its performance to that of the world’s more advanced nations”</td>
</tr>
<tr>
<td>J.D. Arnold &amp; A.J. Quelch (1998)</td>
<td>“There are three aspects of a country economy that often underlie various definitions. First is the absolute level of economic development …This overlaps with … ‘less developed countries’ (LDs). Second is the relative pace of economic development…Third is the system of market governance … the extend and stability of a free market system, if the country is in the process of economic liberalization …it is sometimes defined as a ‘transitional economy’.”</td>
</tr>
</tbody>
</table>

Even though every EM is a unique one, most common characteristics of EMs could be summarized in the following way (Miller, 1998):

1. Physical characteristics, in terms of an inadequate commercial infrastructure as well as inadequacy of all other aspects of physical infrastructure (communication, transport, power generation);
2. Sociopolitical characteristics which include, political instability, inadequate legal framework, weak social discipline, and reduced technological levels, besides (unique) cultural characteristics.;
3. Economic characteristics in terms of limited personal income, centrally controlled currencies with an influential role of government in economic life, expressed, beside other, in managing the process of transition to market economy.

Comparing emerging markets (and emerging economies) and developing countries is necessary to understand Why emerging economies are so important for world economic growth. It is more than obvious these countries are indifferent categories. Differences between emerging economies and developed economies are presented in Table 2.
Table 2: Comparison between Developed And Emerging Markets

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Developed markets</th>
<th>Emerging markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Level of economic development</td>
<td>High</td>
<td>Low/ Medium</td>
</tr>
<tr>
<td>2. State of economy (and society)</td>
<td>Developed/ Stable</td>
<td>Transitional/ Unstable (Economic/Political reforms)</td>
</tr>
<tr>
<td>2.1. Macroeconomic framework</td>
<td>Developed/ Stable</td>
<td>Undeveloped (being created)</td>
</tr>
<tr>
<td>2.2. Market institutions</td>
<td>Developed</td>
<td>Undeveloped (being built)</td>
</tr>
<tr>
<td>2.3. Market conditions</td>
<td>Stable</td>
<td>(Un)stable</td>
</tr>
<tr>
<td>2.4. Market infrastructure</td>
<td>Developed</td>
<td>Undeveloped (being built)</td>
</tr>
<tr>
<td>2.5. Governmental involvement</td>
<td>Not so high</td>
<td>Relatively high</td>
</tr>
<tr>
<td>2.6. Cultural resistance to market economy</td>
<td>Low</td>
<td>Higher</td>
</tr>
<tr>
<td>3. Rate of growth</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>4. Room for growth</td>
<td>Narrow (matured markets)</td>
<td>Huge (undeveloped markets)</td>
</tr>
</tbody>
</table>

It is very important to recognize whether a country is an emerging economy or a developed economy, especially from MNCs point of view. Looking at countries in a mentioned way, it is questionable whether countries like Israel, South Africa, Hong Kong or Singapore are emerging markets or developed economies. A lot of sources treat mentioned countries as emerging markets, but in our opinion these countries could not be treated as such. Each of them has a high GDP and stable economic system with fully developed institutions of market economy. From that point of view, these countries could be treated only as developed countries with a huge market potential, being aware of the bordering line (transitional economy as the most important part of that line) which distinguishes emerging markets from developed markets.

II. MNCs: Evaluating Foreign Market(s)

When a firm decides to expand internationally, the process of internationalization involves a firm moving through successive phases, each characterized by new strategic challenges and decision priorities (Douglas & Craig, 1989). The first strategic phase of the process of internationalization is “initial international market entry”, which is based on the following highly, interrelated decisions (Douglas & Craig, 1989): the choice of countries to enter; the timing of entry, and mode of entry. This paper treats only the first decision: the choice of countries (EMs) to enter.

The process of evaluating foreign markets involves three stages (Kumar, Stam & Joachimsthaler, 1994):

a) Screening stage (rough selection of potential foreign market),

b) Identification stage (focuses on market factors such as market size, market growth and on industry attractiveness with industry-specific information, such as competition analysis, etc.),

c) Selection stage (choice of foreign market, based on estimation of profitability, product adaptation to the firm’s existing portfolio, etc.).
This paper is focused on the preliminary selection EMs, i.e. on conceptual frameworks to EMs which rank (select) EMs, understanding that final decision of EMs to enter will be made through in-depth analysis of selected EMs.

The international marketing literature developed a wide scope of different approaches and methods to international marketing selection, which could be divided in two general groups (Papadopoulos & Denis, 1988): qualitative and quantitative approaches and methods.

Qualitative approach to international marketing selection is based on the rigorous and systematic gathering and analysis of qualitative information about potential country market. But according to Papadopoulos and Denis (1988), this type of approach is open to potential bias of the sources providing information (secondary data) and especially to the subjective judgement of the decision-maker. At the same time, this type of approach limits the number of countries that can be analyzed before the final selection is made.

On the contrary, the major advantages of quantitative approaches are (Kumar, Stam & Joachimsthaler, 1994): a) they reduce subjectivity, and b) they make it possible to evaluate a large number of markets. There are a lot of fully developed quantitative methods for evaluating foreign markets (Papadopoulos and Denis, 1988). The most common strategies adopted by the quantitative studies are (Papadopoulos and Denis, 1988, Kumar V., Stam A., Joachimsthaler A.E., 1994): a) market clustering approach based on similarities of criteria such as “geographic” or “psychic distance” (macro, or micro-segmentation), which promote the postulate that the most attractive markets for a firm are the ones that most closely resemble the foreign markets it has already successfully penetrated; and b) market potential estimation approach based on wide scope of different indicators (e.g. size, growth, wealth, competition, access,...) focuses (Papadopoulos and Denis, 1988) either on the total potential of foreign markets (multiple factor indices, econometric methods) or on the import component of market potential (multiple criteria, econometric approaches, the shift-share approach, other methods).

MNCs, based on their strategic needs and orientation, use one of the presented methods in the process of ranking (and choosing) the foreign countries, making the decision of which emerging market to enter as well as when, how, etc. But most of MNCs treat all the foreign markets in the same way, without making distinction between developed markets and emerging ones. In the process of evaluating emerging markets “… the default option remains the use of mainstream marketing frameworks formulated and applied in the developed world.” (Arnold & Quelch, 1998). But it is wrong. Because of the mentioned huge differences between developed and emerging markets, there is no doubt that MNCs need to rethink these frameworks applying them to emerging markets (Arnold & Quelch, 1998). The traditional frameworks are generally static and ignore the long-term potential of EMs and their rapid rate of change (Arnold & Quelch, 1998), i.e. “…the traditional frameworks for foreign market evaluation don’t apply.” (Arnold & Quelch, 1998).

### III. Conceptual Frameworks to EMs

There are a small number of developed conceptual frameworks to EMs as a distinctive type of markets. Because of the fact that EMs are treated either in the same way as developed markets or assuming that these markets are at an earlier stage of the same development path followed by developed countries.

In this part of the paper, some of developed conceptual frameworks to EMs as a specific type of market will be presented, assuming that “…conceptual framework indicates how a researcher perceives the phenomena being investigated, and which factors and how
they influence the phenomena” and understanding that “... a conceptual framework is not a
theory... a theory can be represented by various conceptual frameworks”, as well as being
aware that “a conceptual framework can be based on more than one theory.” (Anderson,
1997).

Presented conceptual frameworks are developed both by institutions (Euromonitor,
and The Economist) and by some researchers (3 approaches), stressing the fact that treatment
of EMs as a specific type of market from MNCs point of view is a new research area. Table 3
highlights some key differences in orientation between these conceptual frameworks, the
implications which are addressed in a more detailed way in the body of the paper.

Table 3:

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<tbody>
<tr>
<td>Characteristics and Orientation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unit of analysis</td>
<td>RMA as a distinctive type of market</td>
<td>The same</td>
<td>The same</td>
<td>The same</td>
<td>The same</td>
</tr>
<tr>
<td>Approach/Concept</td>
<td>Quantitative/qualitative (6 criteria: 5 quantitative 3 qualitative, the same weighting factors)</td>
<td>Quantitative (set of indicators about economy and financial matrix)</td>
<td>Quantitative (8 dimensions, 17 variables, different weighting factors, overall index)</td>
<td>Qualitative (5 dimensions)</td>
<td>Quantitative/qualitative (nested approach step-by-step, 2 stages)</td>
</tr>
<tr>
<td>Focus on</td>
<td>Market potential/ Risk</td>
<td>% change (for the latest 12 months)</td>
<td>Market potential expressed through 8 dimensions</td>
<td>Quality of internal economy/ Market potential</td>
<td>Long-term market potential (first step) Profitability (third step)</td>
</tr>
<tr>
<td>General/ Specific</td>
<td>General</td>
<td>General</td>
<td>General</td>
<td>General</td>
<td>General</td>
</tr>
<tr>
<td>Static/Dynamic (past or future oriented)</td>
<td>More static/dynamic (past oriented)</td>
<td>More static/dynamic (past oriented)</td>
<td>Static</td>
<td>Static/Dynamic (future oriented)</td>
<td></td>
</tr>
<tr>
<td>Recognize different types (or stages) of EMs</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes (4 types)</td>
<td>Yes (4 categories)</td>
</tr>
</tbody>
</table>

Degree and Manner in which specific aspects of EMs are covered

1. Level of economic development
   - Yes (40%) | No | Yes (general variables) | Yes (BOP, PPI) | Yes (4%) |
2. State of economy (3 aspects)
   - Yes/partially | Yes/partially | Yes (economic and political freedom) | Yes/partially | Yes/partially (in-depth analysis) |
   2.1. Growth level of market economy
   - Yes/partially | Yes/partially | Yes (general variables) | Yes/partially | Yes/partially |
2.2. Quality of infrastructure
   - Yes/partially | Partially (through % of change) | No | Yes (descriptive) | Indirect |
2.3. Evaluating preference (production of services)
   - Yes/partially | Partially (through % of change) | No | Yes (descriptive) | Indirect |
2.4. Market structure
   - Yes/partially | Yes (3 variables) | Yes/partially | Yes/partially (in-depth analysis) |
3. Rate of return growth
   - Partially (forecast of BOP) | No | No (rate of previous growth) | No | No |
4. Room for growth
   - No | No | No | Yes/partially | Yes/first |
A. Euromonitor

Euromonitor apprised market potential of 69 countries from different parts of the world (six regions: Eastern Europe, Southern Europe, Pacific Rim, Central Asia, Africa, Middle East), recognized them as the world’s emerging markets, in 1992 using a set of different criteria (Euromonitor, 1992).

Applied method for apprising emerging market was based on the set of 8 criteria, grouped in the following 3 groups: (1) quantitative-static (in sense that refer to on point): 1.1. market size (GDP in constant US $), 1.2. purchasing power (income per capita in constant US $), 1.3. population size; (2) quantitative-dynamic: 2.1. forecast of GDP (or national income), 2.2. population forecast; and (3) qualitative: 3.1. policy determinants (characteristics of economic policy), 3.2. political determinants (political risk), 3.3. exogenous factors and threats. All factors have the same weighting factor.

This method could be recognized as a quantitative-qualitative method, without a precise definition of qualitative criteria, which reduces objectivity of the method. The method is focused on market potential, even though that potential was not calculated in any way, apprising, beside market potential, both quality of economic reforms and different aspects of risk, but in a very descriptive (and unclear) way. Regardless of its desire to make the method more dynamic, an impression is that it is a predominantly static method, which is not able to penetrate in the core of what an emerging market is. The predominantly static dimension of this method is visible in the fact that the method does not recognize different types or different developmental stages of EMs as well as in the fact that this method does not calculate real potential for growth (room for growth).

Apprising this method through a degree of cover of recognized specific characteristics of EM, this method touches only some dimensions of specific characteristics of EMs. Dimensions like room for growth, market infrastructure, cultural resistance to market economy are not treated, which reduces its credibility in terms of being a consistent and complete method.

This method has no any practical value from MNCs point of view. At the same time rank-list given by Euromonitor is outdated and useless at this moment. The methodology proposed by this method could be used by MNCs eventually in the screening stage, but recognized weaknesses reduce the credibility of the method. Besides this method is not able to rank countries in term of figures; the rank-list of the countries categorize countries in the following groups: (1) particularly good market prospects (6 countries), (2) good market prospects (6 countries), and (3) moderately good market prospects (8 countries), remaining enough space to be suspicious about rank-position same of them.

B. The Economist

The Economist, influential worldwide known economy magazine, every week submit a set of different criteria (emerging market indicators) for 25 countries recognized as attractive emerging markets. Set of criteria covers two aspects of these markets: economy and financial markets. The state of economy is covered by the following indicators: (1) GDP, (2) Industrial production, (3) Consumer prices (as a measure of inflation), (4) Trade balance, (5) Current account, and (6) Foreign reserves. The first three indicators are given only in the form of % change on year earlier. The next two indicators are given for the latest 12 months, while the last one (foreign reserve) is given both for the present and for the passed year. Financial markets are presented through the following indicators: (1) Currency unit (per $ and per British pound), (2) Interest rate (short-term), (3) Stock markets, which are compared with the state of these indicators on the last day (December 31th) of the previous year.
These sets of criteria are a pure quantitative way of depicting emerging markets, focused on % change in different indicators in order to express economic progress done by EMs. The purpose of these sets of criteria is only to recognize changes, without an attempt to examine real causes of these changes and real state of economy (and society) as well as without an attempt either to forecast success of these economies in the future or to rank EMs in any way. That requires more serious analysis. From that point of view it is understandable that these sets of criteria do not cover most of the specific aspects of EMs such as market infrastructure, future pace of reforms (these set of criteria is about analysis of the past, not future), cultural resistance to market reforms etc.

These sets of criteria, in fact, are not fully a method for examination of EMs so that it, from the MNCs point of view, could not be used for making decision where to do business. Regardless of its constraints in the process of choice of EMs, it seems that the chosen set of indicators in a realistic way depict both state of economy and the state of financial markets, giving good sense of orientation to managers of MNCs.

C. Indexing Approach (Cavusgil 1997)

Indexing Approach, developed by Dr Cavusgil at the beginning of 1997 (Cavusgil S.T., 1997), is the first serious research on EMs which, from MNCs point of view, treats EM as a distinctive type of market compared to the developed market.

Indexing Approach is purely a quantitative method, which quantifies 7 different dimensions of EMs measuring 13 different variables using secondary data obtained from different official sources. The Indexing approach measures the following dimensions of EMs: (1) Market size, weighting factor 4/20, 1 (measurement) variable: total population; (2) Market Growth Rate, 3/20, 1 variable: average annual growth rate or industry; (3) Market Intensity, 3/20, 2 variables: purchasing power parity, PPP, and estimates of GNP per capita, with the same weight; (4) Market Consumption Capacity, 2/20, 1 variable (size of middle class); (5) Commercial Infrastructure, 2/20, 5 variables with the same weight (telephone mainlines per capita, paved road density, trucks and buses per capita, population per retail outlet, and percentage of home with color TV); (6) Economic Freedom, 2/20, 1 variable (The Economic Freedom Index, developed by Johnson and Sheehy, which measure: trade-policy, taxation policy, government consumption of economic output, monetary and banking policy, capital flows and foreign investment, wage and price controls, property rights, regulatory climate, and black market activity), and (7) Market Receptivity, 4/20, 2 variables: average annual growth rate of imports from U.S. over the past 5 years (60% of weight), and per capita imports from the U.S. (40% of weight). In the meantime Indexing Approach was improved adding the eighth dimension (country risk) and 4 new variables: 3 additional variables for existing dimensions (1) market size (electricity production), (2) market growth rate (average annual growth rate of commercial energy use between 1980-1995), (3) economic freedom (political freedom as a variable), and a new variable for new dimension (country risk) as well as rearranging weighting factors.

The Indexing Approach is a typical quantitative method focused on measurement of market potential of EMs quantified in the form of overall market opportunity index (OMOI) for particular EMs. At the same time this method provides information, through measurement and ranking each of 8 dimensions of EMs in a very sophisticated way, to managers of MNCs with valuable insights into the nature of any particular EMs. But analyzing structure of variables an impression is that this method is not dynamic enough, in terms that measure only the obtained level of some dimensions of particular EM or changes which happened in the past (market growth rate through average annual growth rate of industry), without respecting
the fact that EMs are in the state of flux which is going on. The predominant static orientation of this method is the reason why some of specific aspects of EMs are not enough covered such as pace of reforms as well as room for future growth. Not proactive treatment of space for future growth as an important dimension of EMs is probably the reason for not recognizing different developmental stages of EMs. At the same time, important aspects of EMs, like quality of reforms or cultural profile are not treated, which could be partially explained by pure quantitative orientation of this method.

As the author of this method said, this method is primarily designed for export companies and could be applied only in the initial stage of qualifying and ranking countries, requiring in-depth analysis of the most promising countries as the next step in making final decision. The method ranks countries in a way that provides insights to managers of MNCs about individual markets in a comparative sense, especially through measurement and ranking each of 8 dimensions of EMs. With this knowledge managers could be “…more objective and systematic in selecting candidate countries.”

Resuming the analysis of the indexing approach, it could be concluded that regardless of all its weaknesses this conceptual framework is very well adjusted to its purpose in terms of its ability to qualify and rank EMs in the initial stage, giving insights about individual markets in comparative sense. Because of the very clear indexing quantification of different aspects of EMs as well as the use of secondary data from reliable sources this method could be applied easily. Improvement of this method could be done in its more future-dynamic orientation, covering some uncovered specific dimension of EMs, and introducing some new variables. The second version of this method is the best proof that it could be improved in that way.

D. Miller (1998)

An approach to targeting EMs developed by Miller (1998) is a qualitative approach which is more a way of thinking than set of clear guidelines for managers of MNCs, in the process of choice of EMs for doing business.

According to this qualitative approach a number of factors should be considered in the process of evaluating EMs, being focused both on market potential (market oriented elements) and internal economy in terms of stability of economy and success of economic reforms and policy. The relative importance of each observed factor will depend on the strategic objectives of the company contemplating market entry. This approach presumes treatment of the following aspects of EMs: (1) government stability, as a vital component of market future growth, which should be considered in the dual context of administrative permanence (stability of political leadership) and policy consistency (maintaining current direction in economic reforms), where policy consistency is a necessary condition for future market growth and for decision about entering a particular EM (MNC should “… have confidence in the ability of the government to maintain its current direction before the company initiates a marketing program.”). In this aspect of EM “openness to trade”, as a ratio of trade to GDP, and “fiscal policy” (availability of currency, inflationary pressure, currency immunity from potential devaluation, taxation policy) should be observed in a very detailed way; (2) market potential, which could be measured using different indicators, depending on characteristics of product of MNC, being aware that competitive environment is not so tough compared to developed markets; (3) economic diversity; (4) investment environment, as part of governmental policy expressed in its ability to attract external investment as one of the most important generators of emerging market growth; (5) market timing, i.e. identification of the stage of market development in the particular emerging economy, recognizing the following stages: pre-emerging, emerging, accelerated growth and maturing.
The presented approach is a typical example of qualitative approach with all early mentioned strengths and weaknesses of qualitative approach to foreign markets. Importance of economic reforms as an engine of market growth, recognition of different developmental stages of emerging markets, more-future oriented way of thinking are some of values of this qualitative approach. From that point of view it is obvious that this approach has covered some specific aspects of emerging markets, but not all. Cultural profile in terms of cultural resistance to market economy is not treated.

This approach as a qualitative approach could not be applied in the the process of evaluating EMs in terms of ranking EMs. Its contribution to managers of MNCs should be observed through developing their way of thinking in terms of looking at EMs as a specific and, compared to developed countries, different type of market.

E. Nested framework

Nested framework for market assessment of EMs is the last presented research on conceptual frameworks to EMs as a distinctive type of market (Arnold&Quelch, 1998). Nested framework for market assessment EMs is only one area in which MNCs need to rethink their way of thinking about EMs. Not only market assessment as an area, the whole marketing model for entering foreign markets needs to be adjusted to “distinctively different environments of Ems”, which covers the following areas: Timing of entry, Market assessment, Product policy, and Partner policy. This paper is focused only on the part of the marketing model for EMs which is about the choice of EMs.

Nested framework for market assessment is, according to its authors, radically different from other similar models, promoting a “long-term market potential” of EMs as a crucial criteria in the process of selecting and ranking EMs. Three distinctive features of the nested approach are: (1) “stage-gate process with sequential, incrementally discriminating phases of market assessment after which each of the numbers of candidate country markets can be reduced” (p. 12). This feature means that the model could select and sort EMs into an adequate portfolio according to priority, which will be discussed later; (2) this framework is based on detailed and market-specific data for assessment, i.e. on customized in-depth analysis of the business prospects for each product-market in interesting EMs; (3) this model, as it was said, puts “long-term market potential” before the measures of “country risk” and “profit conversion potential”, so that “this model is market-demand driven with risk adjustment, rather than being risk-driven with adjustment for demand potential” (Arnold&Quelch, 1998, 12).

Nested framework is composed of three sequential steps. The first step is assessing long-term market potential (q) using the following formula:

\[ q = (p+np) \times \text{(DevGDP} - \text{AdjGDP}), \]

where: \( p/np \) = national population/population growth in the planning period;

\( \text{DevGDP} \) = average per capita GDP in developed markets; and,

\( \text{AdjGDP} \) = GDP in emerging market adjusted to purchasing power parity (PPP),

by putting in balance population growth and space for income growth. Second step is creative, customized assessment of the business prospects for each product-market in EMs under consideration. This step requires that MNC identify its own indicators to serve as acceptable surrogates for assessing demand, and to do some field investigation in the each selected EM.
The last step is predicting potential profits over five years, which requires assessment of economic and political risk and assessment of market infrastructure as well as thorough observation of some other aspects of each selected EM.

This approach is an original one which through its first, second and third step covers all stages of identification EMs, including final decision about EM(s). It is a quantitative method in its first step (original way of calculating long-term market potential), while the second and the third step are presented in the form of guidelines to managers of MNCs which could be customized by them to their specific needs; so that this method could be identified as quantitative-qualitative method. Its focus is dominantly on long-term market potential (first step), assessing risk and other specific aspects in the second and more in the third step (“market-demand driven with risk adjustment”). Additional distinctive characteristic of this approach is its future-dynamic orientation (focus is on “future” not on “past”) and very original portfolio categorization of EMs. This method because of its “stage-gate structure” can be used to categorize EMs on the basis of market potential and profit convertibility, recognizing the following four categories of EMs:

(a) Leading markets (high market potential: high profit convertibility);
(b) Trailing markets (low-low);
(c) Platform investment (high-low);
(d) Aggressive investment (low-high).

Undoubtedly that this method promotes a new view to EMs based on marketing model of MNCs which really respects “distinctively different environments of EMs”.

Because of its focus on long-term market potential as a crucial criteria, earlier mentioned specific dimensions of EM are partially treated in the third step (profit convertibility), even though it is not clear how it should be done (necessity to apprise economic and political risk as well as quality of market infrastructure is only mentioned without explanation how to do it). Specific aspects of EMs as quality of reforms and cultural profile are not treated.

This method has practical value for managers of MNCs and could be used as a conceptual framework for choosing EMs in which MNC want to do business. It is really very easy to implement the first step, while the second and the third step, which are in fact in-depth analysis of each EM, require to be customized by particular MNCs. After the first step MNC could make decision which EM should be treated in a more detailed way through the second and the third step, categorizing selected EMs in the earlier described way.

Resuming the analysis of the nested framework it could be concluded that it is a very interesting approach, which should be treated as a part (an area) of the MNC’s marketing model adjusted to distinctive characteristics of EMs. This approach really has potentials to prioritize market opportunities of interesting EMs. Improvement of this method could be done in a way to develop guidelines for the second and the third step, covering in a more consistent way certain specific aspects of EMs (quality of reforms, cultural profile, etc.)

**Concluding Remarks**

Even though emerging market is a distinctive type of market, MNCs still use the same conceptual frameworks in the process of evaluating all foreign markets as potentially new markets. Distinctiveness of EMs lays in the fact that those types of markets are less developed
countries, with huge space for growth, which initiates high degree of growth attempting to “emerge” to market economy through process of economic (and political) reforms (transitional economy).

This paper surveyed the conceptual frameworks applied by MNCs to EMs which treat EM as a distinctive type of markets. It is beyond the scope of this paper to analyze the strength and weaknesses of the presented conceptual frameworks. Rather, the purpose is to increase the consciousness of EMs as a different type of market from MNC’s point of view and enrich the further development and refinement of the conceptual frameworks to EMs research.

In fact, there are only two researches on this topic (Cavusgil, 1987; Arnold&Quelch, 1998) in the form of developed conceptual frameworks to EMs as a distinctive type of market. The first one (Cavusgil, 1987), which is addressed only to export oriented firms, is purely a quantitative approach (indexing method) which evaluates different aspects of emerging market, and ranks them calculating the so-called overall market opportunity index. In-depth analysis of the best ranked countries is the next step in the process of choosing EMs. The nested approach (Arnold&Quelch, 1998) is based on step-by-step approach. Through the first step the future market potential is being quantified using an original formula, then through the second and third step, in-depth analyzing interesting EMs, EMs are being categorized in four different categories.

Different approaches expressed in only two researches on this topic are the best proof that there is huge space for future research on conceptual frameworks to EMs as a distinctive type of market from MNC point of view. Future researches should be more focused on distinctive characteristics of EMs, such as quality of economic reforms, obtained level of market economy, cultural resistance to market economy, …, being aware that EMs are “in a state of flux” (dynamic, future-oriented approach to EMs). New conceptual frameworks to EMs should be able to rank (and categorize) EMs relatively easy (based on secondary data from different reliable sources such as World bank, …) according to criteria which express real characteristics of EMs, giving clear guidelines for in-depth analysis of the best ranked countries. Linkage between preliminary ranking (categorizing) EMs, which is the purpose of this type of conceptual framework, and in-depth analysis of the best ranked countries should be focused in a way that guidelines for in-depth analysis, as a logical nest step, is adequately appropriated to the logic of applied conceptual framework, i.e. the guidelines for in-depth analysis should be a part of this type of conceptual frameworks.

References


