EMERGING MARKETPLACES

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1. Executive Summary

Broadly defined, an emerging market is a region 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. Emerging markets are not necessarily small or poor; rather these countries attempt to attract foreign investments by showcasing their intrinsic value—their natural resources, labor force, technology, locations and culture.[1] In recent years, multinational corporations have increasingly searched for and invested in these emerging markets. Entrance into these marketplaces provides these corporations with access to low-cost production inputs as well as visibility to untapped consumer bases worldwide.

While attractive on many fronts, the entrance into emerging markets is not an easy one. Firms must evaluate and update their business models to meet the needs of these growing markets. Emerging market spaces often require marketing and distribution strategies much different from the techniques employed in developed nations. Many firms underestimate the impact of mismatching business strategies and the resulting effect on their international operations. Incoming corporations should also consider the impact of cultural differences when planning an entrance strategy. Failure to respect the surrounding environment and embedded belief systems will potentially alienate the customer base firms are seeking to capture.

While there is no prescribed solution for entering emerging markets, corporations can prepare themselves by truly understanding the marketplace and its potential sources of problem before entering. This white paper outlines a framework for corporations to follow when entering developing marketplaces. Using a case study approach, we will support this framework by analyzing Nike and Coca-Cola and their failed emerging market entry strategies and contrasting them with the more successful strategies of companies such as Dell and Cisco Systems.

2. Companies with entry strategies that failed

Coca-Cola

Company Background

The Coca-Cola Company was organized in 1886 and engages in the manufacturing, distribution and marketing of non-alcoholic beverage concentrates and syrups[2]. The company also produces, markets, and distributes juices, water products, sports drinks, teas, coffees, and other beverage

[1] http://www.emdirectory.com/definition.html
[2] Finance.yahoo.com

products. Coca-Cola is the most valuable brand in the world, with a brand value of $67.5 billion[3]. In order to better understand and manage the complexities of cultural, economic and political factors impacting the company, Coca-Cola established an International Advisory Council.

Coke started its international expansion in 1906, and by 2003, generated more than 70% of its income from outside the U.S. In 1993 Coca-Cola returned to India after a 16 year absence. They originally chose to leave India rather than to reduce their equity stake and reveal their secret formula. When they returned, Coca-Cola made a grand entry by purchasing the most trusted brand in India, Thums Up[4], and within 10 years had made investments of over $1 billion. As a global company, Coke seemed to place a lot of emphasis on corporate social responsibility, mission statements and beliefs. With a focused marketing strategy based on the "Think global, act local" mantra of CEO Daft, Coke enjoyed success in the Indian marketplace.

But was this success sustainable? Did Coke's attempt to gain a competitive advantage indeed place it at a disadvantage that would cost it later? A clearer picture emerges when we analyze Coke's position in the industry using generally accepted frameworks for analyzing whether a firm has a sustainable competitive advantage.

How to gain competitive advantage in a market

According to Porter, firms have two main sources of competitive advantage—low cost or differentiation[5]. Sustainable competitive advantage can be achieved by applying one of these within a well defined competitive scope. (Figure 1)

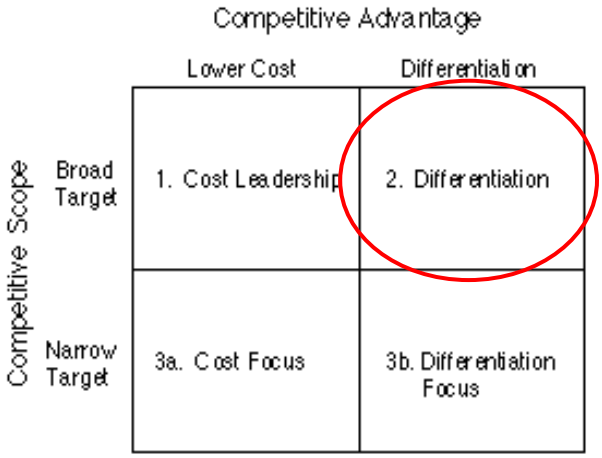


Figure 1
Source:

Coca-Cola initially entered India using methods already proven successful in the United States. They focused on the power of the brand appealing to the mass market. This strategy failed. Annual per capita consumption was 6 bottles vs. 800 bottles in the U.S. Simply importing the American way of life and planting it in another market would not work, and Coke had to be innovative and devise strategies that would enable it to compete more effectively in the marketplace.

Coke revamped its strategy when it realized that it was leaving a large market untapped. It segmented its market and reached the rural areas with smaller packages that were cheap enough for the 96% who lived in rural areas to afford. Those in the urban areas who cared about differentiation and drinking the product as a lifestyle choice were targeted with separate marketing campaigns. Coke's financials improved substantially.

[3] Interbrand.com 2005 best global brands
[4] Coca-Cola India website
[5] SOURCE

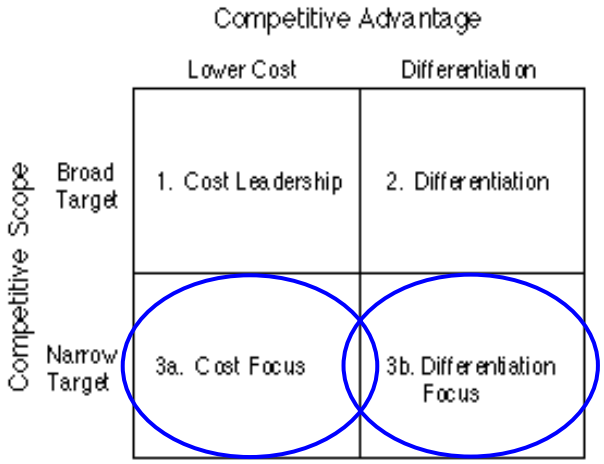


Figure 2

In addition, with a traditional Corporate Social Responsibility strategy, Coca-Cola sought to be a responsible corporate citizen. From education to health to energy conservation projects, Coke made its contribution and sought to make a difference in India.

How Coke's problems began

With the advent of non-governmental organizations, awareness of environmental and societal equity issues increased as well as pressure on businesses to be equitable, yet Coke failed to realize this threat. However, when the Center for Science and Environment published a study in August 2003 alleging that Coke (and other soft drink products) contained pesticides, Coke took notice. In typical big, superior corporation style, Coke and Pepsi united and attacked the credibility of the Center for Science and Environment. That only made a bad situation worse, causing people to believe the "local" organization and not the "foreign" company.

The locals were furious as they believed their local resources (such as water) were being exploited, resulting in little left over for their own individual use. They did not feel respected nor did they see themselves as stakeholders, as Coca-Cola hadn't built relationships that would make the locals trust it. In sum, Coke had entered the local market using practices that would be frowned upon in the U.S. and in Europe. It was only a matter of time before they would be found out. Even though subsequent tests by the Indian government found toxic levels of pesticides—including DDT— Coke refused to acknowledge the validity of these tests and apologize for its actions. They treated the issue as a public relations issue and handled it as such.

Coke watched in horror as the stories escalated. Headlines screamed:
"Farmers in India are delighted that they have finally found a use for Coca-Cola—as pesticide";

"Coca-Cola was distributing its solid waste to farmers in the area as "fertilizer";

"Tests conducted by the BBC found cadmium and lead in the waste, effectively making the waste toxic waste. Coca-Cola stopped the practice of distributing its toxic waste only when ordered to do so by the state government";

"Coca-Cola products contained high levels of pesticides, and of pesticides, and as a result, the Parliament of India has banned the sale of Coca-Cola in its cafeteria"; and,

"Coca-Cola is destroying the food security of the people of the land-by stealing the water and poisoning the water/soil, it is also responsible for ensuring a life of misery for future generations to come."

The status of the problem facing Coke

The repercussions have been numerous:

- One of its plants in India remains closed
- Ongoing campaigns for Coke to exit India completely
- Student-run campaigns pressuring Coke to come clean
- Rutgers University refused to renew Coca-Cola's contracts
- University of Michigan has put Coca-Cola on probation
- Union Theological Seminary bans sale of Coke products

There are four main grievances against Coca-Cola which it has failed to address:

- Selling beverages that contain pesticides (up to 30 times what the U.S. and E.U. allow)
- Causing water shortage to nearby villages
- Contaminating water supplies
- Passing on toxic sludge to farmers to use as fertilizer

The campaign against Coke's practices did not start as a massive organized effort—which led to Coke's inability to see the threat. Communities near Coke's bottling plants began to agitate when they started experiencing water shortages. As the campaign against Coke developed, the communities began protesting for Coke to close down multiple factories, offer compensation to affected farmers and re-train/relocate workers affected by the plant shutdown. With so much negative backlash, Coke's shareholders are still not enlightened to the developments.

Nike

Failure in Global Commercialization: The World Shoe Project in China

Nike is the largest seller of athletic footwear and athletic apparel in the world. The company is primarily engaged in the design, development, and worldwide marketing of footwear, apparel, equipment, and accessory products. During fiscal year 2005, Nike reported $13.7 billion in global sales revenues, with more than 63% being generated in overseas markets.[6] Much of Nike's overseas successes can be attributed to its sales and marketing effectiveness in developed market spaces. For years, Nike has sourced its manufacturing and distribution operations from numerous Asian countries, translating reduced production input costs into high margin product lines sold across the globe. Although Nike had managed considerable sales growth in established marketplaces, there remained a huge untapped customer base in emerging marketplaces such as China, India, and much of Southeast Asia. Nike sought to enter these virgin marketplaces and compete against established competitors for a share of the customer wallet and provide an added boost to corporate revenues.

Nike's Entrance into Emerging Marketplaces

Nike founder Phil Knight's business philosophy was simple—design, develop, and market products in house and then contract with low-price manufacturers to reduce the product input costs. Nike began outsourcing production capabilities in the late 1960's through contract agreements with two Japanese manufacturers. Nike experienced considerable sales increases, due in part to the margin flexibility created by the reduction in manufacturing costs. Changes in the labor market and foreign currency exchange concerns forced Nike to explore new markets for manufacturing outsourcing. Korea and Taiwan were soon identified and by 1982 more than 86% of Nike footwear was manufactured between the two countries[7]. Over time, the Korean and Taiwanese markets began to mature and the costs of labor and manufacturing increased. Continuing the search for low price inputs, Nike explored sourcing opportunities in the emerging markets of Southeast Asia. Nike negotiated with the Korean and Taiwanese producers to relocate their manufacturing operations to China, Vietnam, and Indonesia. Entrance into these new markets allowed Nike to continue production of low cost, high margin footwear. Financial success would continue, but a series of

[6] Marketline Business Information Centre: Nike, Inc. http://www.datamonitor.com
[7] "The Promise and Perils of Globalization: The Case of Nike." Locke, Richard M.

public relations disasters in the 1990's threatened to destroy the brand equity Nike had worked so hard to develop.

Substandard Working Conditions: Public Relations Nightmares

During the 1990's, Nike was confronted with numerous allegations of worker mistreatment stemming from its Southeast Asian manufacturing operations. There were charges of substandard wage distribution, child labor violations, and worker health and safety concerns. Media outlets were informed of these charges and news of the Nike violations spread across the globe.

In 1993, CBS aired a story chronicling the payment of substandard wages to employees in Indonesian manufacturing facilities. Employees in these factories were paid below the minimum daily wage (~ US $1per day) and received considerable abusive treatment from the factories' Korean owners. The story's details spread across media outlets including articles published in the *New York Times* and the *Economist*.[8] Shortly thereafter Nike was forced to respond to allegations of child labor in its Asian manufacturing facilities. A 1996 *Life* magazine article contained a picture of a 12 year-old boy sewing together Nike soccer balls in a Pakistani manufacturing plant. The article was met with immediate outrage, touching off boycotts and protests throughout Southeast Asia. If that wasn't enough trouble for the decade, Nike was charged with providing substandard working conditions for workers in Vietnamese manufacturing facilities. A 1997 Ernst and Young audit investigation reported in the *New York Times* uncovered serious health and safety problems, most notably overexposure to the chemical solvent toluene. The report claimed exposed workers were suffering from a variety of respiratory, skin and heart ailments. If that wasn't enough, the report stated that workers were not provided with protective equipment and their work hours violated the Nike Code of Conduct.[9]

Nike is still trying to recover from these highly publicized infractions. They have worked with local labor groups, the AFL-CIO, and local government authorities to attempt to clean up the manufacturing operations in these countries. Considerable damage has been done to Nike's brand image. Once associated with high performance athletic apparel and equipment, Nike is often associated with sweatshop labor. In a speech to the National Press Club, founder Phil Knight remarked, "The Nike product has become synonymous with slave wages, forced overtime, and arbitrary abuse."[10] Despite all the negative publicity generated, Nike continued to operate in the markets of Southeast Asia. In the face of the public relations hailstorm, Nike decided it would evaluate the feasibility of designing a shoe specifically for these underdeveloped markets.

Expanding the Consumer Base: The World Shoe Project

Entering the consumer markets of Southeast Asia would expose Nike to a large, untapped customer base—most notably in China. With a population approaching 1.2 billion, a tremendous opportunity existed and successful product launch in China would pay immediate dividends.

Nike established a task force to investigate potential business opportunities in emerging markets. The task force concluded that a successful product for emerging markets would require a change in business processes for Nike. Based on these findings, Nike decided to pursue the opportunity further. In 1998, Nike's Director of Emerging Market Footwear, Tom Hartge began the "World Shoe Project." Hartge and Nike hoped to develop a strong market presence in China by developing and manufacturing an athletic footwear product tailored to the needs of an emerging market. The product, dubbed "The World Shoe," would be a lower cost alternative to Nike's current product line, marketed to the lower income consumers in these virgin markets. Hartge hoped the World Shoe would allow Nike to compete with the counterfeiters and other low cost shoe providers.

The World Shoe was a miserable failure—with a consumer base of more than 1.2 billion people – Nike sold only 404,520 pairs in China between 1998 and 2001.[11] Hartge and Nike made considerable miscalculations in their market entry strategy. The World Shoe's emergence was stifled by strict

[8] Ibid.
[9] Ibid.
[10] Ibid.
[11] Expanding the Playing Field: Nike's World Shoe Project

profit margin guidelines imposed by senior management. The World Shoe was held to the same profit schedule as the products sold in developed markets, making the resulting product more expensive to prospective consumers. Chinese customers with limited purchasing power could not afford to purchase the World Shoe. Entrenched competitors and counterfeiters were able to provide products to consumers with much lower prices and were able to maintain their share of the market.

The World Shoe was doomed by Nike's implementation of incongruent distribution schemes in the Chinese marketplace. Nike continued to offer is product mainly through retail outlets with little or no consideration given to alternate distribution models. The lower priced World Shoes were placed on the sellers' shelves next to existing Nike product in existing retail locations. The problem Nike faced was that much of the Chinese consumer base resided in rural areas and was unable to get to the retailers in the urban centers to purchase the product. Overall, Nike's sales and distribution strategy failed to reach the greater base of consumers they so desired.

Nike's foray into the Chinese marketplace was hindered by miscalculations in the overall entry strategy. Hartge and Nike assumed that the tried and tested marketing and distribution schemes used in developed nations could be easily applied to the Chinese market. In order to succeed in emerging markets, corporations must be open to adapting to the customer and surrounding market forces. Had Nike leadership reduced profit margin guidelines in China, enormous gains in overall profits could have been realized by increasing the total number of World Shoes sold.

3. Companies that employed strategies that succeeded

Dell

The Risk

Though many leading technology manufacturing companies are now taking large strides towards alleviating the impact of E-waste, the problem is not small. Currently, only 10% of all E-waste is recycled. The rest usually ends up in basements, garages, and other out-of-sight locations. Of the 10% that currently is recycled, a vast majority is shipped overseas and dismantled under horrific conditions, poisoning the people, land, air and water in places like China, and Mexico.[12] In the U.S., E-waste is often dismantled by inmate laborers who are not automatically afforded the same degree of worker health and safety protection as people employed on the outside. Thus, E-waste is a real and very serious threat. Luckily, companies like Dell have recognized the environmental impact associated with the improper disposal of computers and are successfully positioning themselves as social and environmental stewards in the fight against E-waste.

Background

E-waste is a term which 10 years ago had little implications and almost no consumer recognition or understanding. Today, E-waste is one of the largest environmental factors facing technology manufacture companies.

In the simplest terms, E-waste is defined as cast-off computers and other electronics, usually headed for the landfill or other unfortunate fates.[13] It is estimated that 315 to 600 million desktop and laptop computers in the U.S. alone will soon be obsolete. This is the fastest growing portion of our waste stream—growing almost 3 times faster than our municipal waste stream. Even more staggering is the fact that in the U.S. alone, 133,000 PCs per day are currently being retired and replaced by their original owners.[14]

PHOTO COURTESY OF BASEL ACTION NETWORK

Reports estimate that the pile of obsolete computers would reach a mile high and cover six acres—an area similar to a 22-story building covering all 472 square miles of the Los Angeles.

Source: www.emdirectory.com

[12] www.computertakeback.com
[13] www.web.freegeek.org/howto/startup/definitions.htm.
[14] What is producer takeback?, www.computertakeback.com

The problem is simple. Discarded computers and electronics are toxic hazardous waste. More specifically, 40% of the heavy metals, including lead, mercury and cadmium, in landfills today, came from discarded electronic equipment. Further, the 315 million discarded computers previously mentioned contain an estimated 1.2 billion pounds of lead. Why is this concerning? Because lead and mercury are extremely toxic and contaminate quickly—just 1/70th of a teaspoon of mercury can contaminate a 20- acre lake, making the fish uneatable.[15]

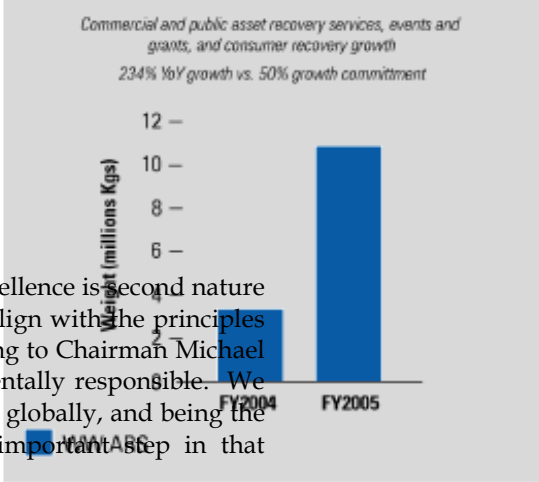
What is being done?

Dell Inc. is leading the charge against E-waste. Founded in 1984 by Michael Dell, Dell Inc. is located in Austin, Texas. Dell, a $55 billion company and the largest computer manufacturer in the world, designs, develops, manufactures, markets, and services a range of computer systems.[16]

Several years ago, Dell realized the negative social and environmental impact which resulted from the improper disposal of computers. Today, Dell has taken a stance to alleviate the problem by offering a variety of disposal mechanisms including:

- **Dell Recycling:** Recycled consumer computer products.
- **Asset Recovery Services:** Computer products recovered from businesses, governments, schools and universities for reuse or recycling.
- **Donation:** Computer products donated to U.S. charities through Dell Recycling.
- **Recycling events:** Computer products dropped off at recycling events sponsored or supported by Dell.
- **Lease returns:** Computer products returned to Dell for reuse or recycling.
- **Retired Dell-owned equipment, customer returns and excess spare parts:** Dell-owned equipment that is retired, computer products returned within 30 days of purchase that can be refurbished and resold, and a small amount of excess spare parts (this excess is very small as Dell's build-to-order model allows for very low amounts of inventory)[17]

On an annual basis, Dell establishes a recycling goal. In FY2005, Dell publicly announced a goal increase of 50% over the previous year. Currently, Dell is recovering some 11 million kilograms annually—an accomplishment that does not go unnoticed.



Dell's vision is noble—to create a company culture where environmental excellence is second nature because the principles of environmentalism—efficiency eliminates waste—align with the principles of their direct business model—efficiency delivers customer value. According to Chairman Michael Dell, "We've shown that Dell can continue to grow while being environmentally responsible. We are determined to address the challenges of raising computer recycling rates globally, and being the first in our industry to set public recovery goals in this report is an important step in that direction."[17]

Today, a growing number of legislative and market drivers including the Environmental Protection Agency (EPA) are focused on reducing the environmental impacts of technology products. To do this, they strictly monitor how the products are designed, produced, manufactured, used and managed at the end of the life cycle. In addition, governing bodies in Europe are beginning to push legislation that demands a higher level of response. Not surprisingly, Dell is listening.

To further meet the challenges of these legislative bodies as well as ongoing public demand, Dell has established a Design for the Environment (DfE) Program which incorporates environmental

[15] www.computertakeback.com
[16] www.marketline.com
[17] www.dell.com

attributes into each aspect of the product life cycle. From supplier management to end-of-life solutions, this holistic "life cycle" aims to reduce the risk of any one stage in the life cycle from being addressed in a way that may result an environmental burden during another stage in the life cycle. As part of this program, Dell strives to increase energy efficiency, decrease the amount of environmentally sensitive material used during production, and increase the ability/ease of disassembly, repair and recyclability.

Dell has also taken to the road and embarked on a National Recycling Tour, collecting 1,000 tons of obsolete computers.[18] Unlike other computer manufacturers, Dell does not have storefronts and therefore cannot offer a location for consumers to turn in their outdated computers—making the National Recycling Tour an integral part of the company's E-waste initiatives. In addition, Dell partnered with Goodwill in San Francisco to open a site location where people can drop-off old equipment.

Dell's Strategy

As a result of their actions and environmental stewardship, Dell Inc. has become known as a leader in environment innovation among technology companies—a feat which has not gone unnoticed by the public. Dell has effectively engaged in a strategy of disruptive design which is illustrated by the changes in product manufacturing through programs such as Design for the Environment. By listening to consumer needs as well as the pulse of regulating bodies such as the EPA, Dell successfully started a competitive race with other leading technology manufacturers. The winner of the race would be the one to stay on the front end of the curve at all times. Today, consumer praise for Dell has directly led to animosity and allegations against technology companies who are not getting on this environmental bandwagon, especially Apple Computers.

Allegations against Apple

Unlike Dell, Apple Computer Inc. is not as in tune with the pulse of their consumers. According to opinion groups and the Take Back Computer Campaign, Apple has failed to disclose any goals for E-waste recovery and recycling. Even more startling is the fact that Apple Computer Inc. founder Steve Jobs has yet to recognize that failure to address the problems of E-waste is starting to affect the company's image. Consumer's disdain for Apple is further fueled by the company's disregard for environmental regulations established by the European Union. Apple complies with the regulations in Europe and Asia, but intentionally opposes such programs in the U.S. This not only increases consumer sentiment, but it opens Apple to substantial legal risk. Lastly, major institutional customers in education and government are adopting green procurement guidelines including strict regulations on computer take-back programs and toxicity levels. Therefore, Apple is at a real risk of losing ground and tarnishing its traditionally popular brand image.[19]

Not surprisingly, vocal environmentalists are starting to speak out. In June 2005, as Steve Jobs delivered a commencement at Stanford University in Palo Alto, California, a plane flew over the stadium with a banner that read: "Steve—don't be a mini player—recycle all e-waste." Similarly, groups of protesters donning anti-Apple signage have been seen. If Apple does not change its ways soon, there could be considerable impact to the company's bottom line.

What does this mean for emerging markets?

Currently there are two key issues regarding E-waste that are currently and will increasingly affect emerging markets: the dumping of E-waste in emerging markets and forecasted growth of PC use in these same markets.

As mentioned, a large amount of scrapped products from the U.S. are shipped to emerging markets. In 2002, the Basel Action Network (BAN) discovered that 50%-80% of E-waste collected in the U.S. is actually exported to countries like China, India, Mexico, and Pakistan. As these products are

[18] E-Waste and iWoes, Zack Pelta-Heller, AlterNet. August 15, 2005.
[19] www.computertakeback.com

dismantled, unsuspecting individuals are exposed to extremely harmful substances. The lingering effect of this exposure is yet to be determined.

Another concerning factor is the estimated increase in PC penetration in these emerging markets. In 2003, 75 million PCs were reported in the 16 core emerging markets. However, by 2010, this number is expected to exceed 566 million PCs. From an outsider's perspective, the proliferation of technological improvements and advancements is likely seen as a positive.

However, if companies continue to resist Dell's Design for the Environment or other recycling initiatives, these countries will be bombarded with products low in recyclability and high in toxicity. With little resources to dispose of them properly, the waste shipped to these countries from the U.S. combined with their own technology E-waste could prove catastrophic for the environment as well as the local people.

Cisco Systems

Background

Cisco Systems is one of the most successful global companies in the '90s and early part of the new century. The Internet technology, which is Cisco's key to success, emerged in the '80s and has innovated the telecommunication industry. In 1997, Cisco established the Cisco Networking Academy Program[20] that offers a solution to address the needs for new technology literacy. In particular, the program provides a significant step in education and opportunity for people in emerging market countries. The program contributes to leading the emerging countries towards an information society, as well as provides Cisco with sustainable growth. The growth is simple. As people learn the program, they feel familiarity with Cisco's products and become new Cisco patrons.

Cisco's Corporate Philanthropy

"We want to do our part in building stronger, more productive global communities. We believe that healthy, self-sustaining communities arise when every individual has the means to live, the opportunity to learn, and the chance to share those gifts with others." (Cisco's vision of Corporate Philanthropy[21])

Cisco's goal is to identify nonprofit activities that display a need for improved technology and assist in this transformation. Cisco supports these organizations by responding to communities in immediate distress—expanding the organization's long-term capacity by encouraging the innovative integration of technology into their operational strategies.

As a result of the improved technology and capabilities, Cisco expects the nonprofit organizations to reach new levels of productivity as chronic intervention steadily gives way to lasting transformation. Cisco calls this transformation the Cisco Impact.

The Cisco Networking Academy

The Cisco Networking Academy Program is a non-profit partnership among Cisco, education, business, government and community organizations. It sets nurturing networking professionals as a goal. The education system employs an e-learning system which uses web-based and face-to-face methods and lab exercises to teach students how to design, build and maintain computer networks. Students can learn networking and other information technology-related skills, preparing them for jobs as well as for higher education in engineering, computer science and related fields. First established in the U.S. in 1997, there are more than 9,000 Academies operating in 140 countries around the world. More than 400,000 students participate in the Academies operating in high

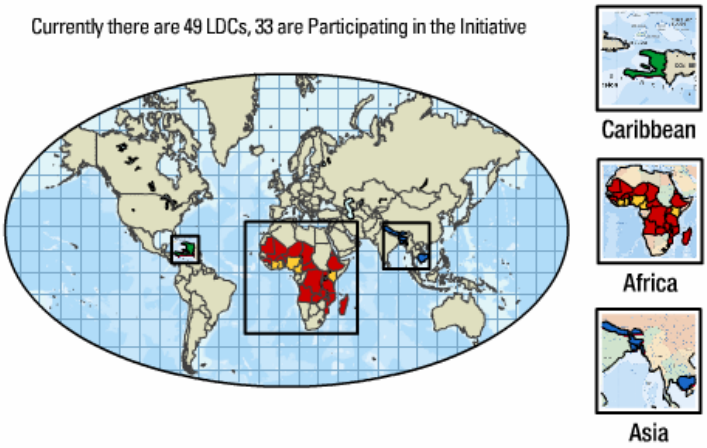
[20] http://www.cisco.com/web/learning/netacad/index.html
[21] http://www.cisco.com/en/US/about/ac48/about_cisco_community_and_philanthropy_home.html

schools, universities, technical schools, community-based organizations, and other educational programs.

Successful Stories

1. The Asia-Pacific Development Information Programme

The Asia-Pacific Development Information Programme (APDIP)[22] is an initiative of the United Nations Development Programme (UNDP)[23] that promotes the development and application of new Information and Communication Technologies for poverty alleviation and sustainable human development in the Asia-Pacific region. In 2002, the APDIP and Cisco successfully completed a three-year initiative to bring Internet education to students in developing countries in the Asia Pacific region. They surpassed the original goal to set-up ten Cisco Networking Academies in nine developing countries and have established eighteen Academies in that region. These Networking Academies produced over 140 graduates and are currently training more than 500 students.



2. Least Developed Countries Initiative

In July 2000, following the G-8 Summit, Cisco, the UNDP, the U.S. Agency for International Development and the United Nations Volunteers announced the formation of the Least Developed Countries (LDCs) Initiative to help train students to bridge the digital divide in the LDCs. Cisco's initial $3.5 million investment established its global Cisco Networking Academy, a comprehensive, eight-course, 560-hour curriculum that trains students and in-transition workers how to design, build, and maintain computer networks. The initiative has created opportunities for skills development in participating countries, empowering them to accelerate progress and attain sustainable development.

3. Cooperative Project with China Ministry of Education

Cisco and China's Ministry of Education signed a Memorandum of Understanding on cooperation with 35 Model Software Colleges in June 7, 2004. Under the MOU, Cisco provides the Cisco Networking Academy Program that a total value is US$37.7 million. This project is expected to make an important contribution to the development of the software institutions and IT education in China.

Largest Emerging Markets - China & India

In the developed countries, large carriers and enterprises have already sunk billions of dollars in legacy equipment, yet their services are not growing as fast as in emerging regions such as Asia. Although Cisco's business in developed countries such as the U.S. and Japan has been successful so far, entering new markets and developing sustainable markets are indispensable for further growth. China and India are expected to become large markets following the U.S. in the near future.

1. China

Cisco established the first office in China in 1994 and later opened its Shanghai, Guangzhou and Chengdu offices. Then, in 1999, Cisco established a technology support center in Beijing, one of four such centers in the world. Cisco also runs numerous Cisco Networking Academies across China. Cisco does not report sales figures in China, but revenue is estimated at $500 million in 2004.[24] Although it was down about 30% from a year ago and only half from the peak of $1 billion (2001), China is the largest market in Asia (excluding Japan) and Cisco considers to make China the second largest market in 2-3 years (after the U.S.).

2. India

[22] http://www.apdip.net/
[23] http://www.undp.org/
[24] http://www.chinanex.com/company/cisco.htm

Cisco had set up its first office in India in 1994, and it works with 1,400 distribution partners in India today. In 2003, its revenues rose to Rs 16.3 billion. Given that it grew by 47% last year, it now commands 5% of total IT spends in India (see figure below). It is also the fastest growing tech multinational company in India. By the end of 2000, Cisco had done business in India worth Rs 7.650. That number should easily touch $500 million next year. These days, John Chambers (CEO of Cisco Systems) is keeping an eye on India, which has emerged as one of the fastest growing markets for Cisco. Cisco's target for India for 2007 is $1 billion in revenues. Voice and Data, a trade magazine, put Cisco's India turnover at $300 million in 2003.[25]

How Cisco has grown in India

	DOMESTIC INDUSTRY (Rs cr.)	GROWTH (Y-o-Y IN %)	NETWORKING INDUSTRY (Rs cr.)	GROWTH (Y-o-Y IN %)	CISCO (Rs cr.)	GROWTH (Y-o-Y IN %)	CISCO AS % OF INDUSTRY
2000-01	24,670	—	2,023	—	765	—	3.1
2001-02	24,738	0.2	2,235	10.4	930	21.5	3.7
2002-03	26,952	9.0	2,257	0.98	1,109	19.2	4.1
2003-04	33,374	23.8	2,978	31.9	1,630	47.0	4.8

Source: Nasscom

Figure 3

SWOT Analysis

After evaluating Cisco's entrance strategy into emerging markets based on a SWOT analysis, it is apparent that their activity based on the Cisco Networking Academy works well to mitigate the weaknesses and threats by taking full advantage of the strengths and opportunities.

SWOT Analysis
- Entering into emerging countries -

Strengths	Weaknesses
• Leading technology (Creating de facto standard) • Market leader (80% market share) • Strong brand	• Need localization • Language difference • Geographically separated
Opportunities	**Threats**
• New Technology (Telephone -> Internet) • Emerging Market (No legacy equipment)	• Local Companies (New Entrants) • Local Government (Regulation etc.)

Figure 4

Since the beginning of the Internet era, Cisco has created leading technologies, become established as a market leader and developed a strong brand image. Generally speaking, telecom technologies tend to be controlled by a local government and localized in each country. However, because the Internet is new technology and emerging countries have not implemented network infrastructure yet, Cisco introduces new technologies in emerging countries through the education program. For example, by teaching technologies in a lab equipped with Cisco products, Cisco can nurture technical leaders who favor Cisco's technology. Moreover Cisco created the education programs as a joint project with local institutions, government or international organizations. This strategy

[25] http://www.businessworldindia.com/sep2704/indepth03.asp

effectively works to obtain good cooperation from local government and organizations. Finally, the Cisco Networking Academy continues to foster the IT industry. Students educated at the Academy become familiar with Cisco's technology and as a result, are lifetime customers. Clearly, Cisco is paving a path into emerging markets. As they gain support and momentum, they are expected to achieve ongoing sustainable growth.

4. Trend Analysis

Although major U.S. companies, such as Coca-Cola and Nike, have done business successfully in the U.S. and developed countries, they are facing limits to growth in existing markets. Emerging countries, such as China and India, are a new frontier for achieving further growth. With over a billion people each and forecasts of significant economic growth in the near future, global companies cannot afford to ignore the importance of these developing countries.

In the first stage of investment in the emerging countries, typical U.S. companies considered these emerging nations simply as production centers. Thus, when their economies matured and labor cost increased, the companies had to withdraw and move to other places. As a result, they never successfully cultivate emerging markets. In the second stage, U.S. companies tried to enter emerging markets to sell their products with traditional strategies they had successfully applied in the US and developed countries. However, as market structure, such as population distribution and income per capita, differed between the existing markets and the emerging markets, their trial resulted in miserable failure as we observed in the Coca-Cola and the Nike cases.

Learning from past failure, U.S. companies are trying to tap into the emerging markets again. By researching local cultures and markets thoroughly, they are revamping their marketing strategies. For example, in the Coca-Cola case, they realized the failure in market segmentation in India and revised their marketing strategy—creating separate strategies for urban and rural areas. Nike also realized its marketing failure by inaccurately assessing Chinese buying power and distribution channels. In addition to the new marketing strategy development, the most significant trend is investment in social activities such as corporate citizenship and environment conservation. For example, Coca-Cola and Cisco Systems focus on education in emerging countries and Dell concentrates on how to resolve environment issues. These activities may not be direct investment to their businesses, but they illustrate the importance of social and environment stewardship in order to achieve sustainable growth in emerging countries. Through these activities, local consumers recognize U.S. companies as local companies, not foreign. Moreover, education fosters human capital that is required for economic growth, and environmentalism contributes to develop suitable consumption. As a result, it is expected that the emerging market will become profit centers based on positive investment and nurtured growth.

5. Recommendation

After analyzing the successful entrance and sustainable strategies of companies such as Cisco and Dell and similarly understanding the reasons why companies such as Coke and Nike did not succeed, several key learnings emerged. Based on these insights, it is apparent that all corporations interested in expanding their business and having a positive impact in emerging communities—whether these communities are in growing markets such as China and India or on U.S. soil—must intricately plan their entrance strategy. Clearly, there are ways to do this right and there are ways that should not be replicated.

Localized Marketing

Companies entering emerging markets must first and foremost consider the local market and gain an understanding for cultural differences. In simple terms, companies must adjust their strategies rather than adjust the marketplace.

Both Nike and Coke neglected to consider the tastes and preferences of the consumer they were trying to reach, the differences in distribution systems needed to reach their target consumer base, and an appropriate pricing structure to effectively capture the market. Consequently, both companies failed. By failing, not only did Coke and Nike forfeit anticipated sales revenue but, more importantly, brand image and company reputation were forever tarnished.

Corporate Citizenship

Companies entering emerging markets must also consider the environmental impact their entrance will have on local communities. In addition, education influence and relationships with local organizations and governing bodies must be taken into account.

Environmental protection is important to create sustainable markets. Developed countries have advanced technologies and know-how to resolve environment issues, yet often this information is not transferred to emerging markets. In Dell's case, as PC's increasingly penetrate developing markets, it is crucial that the company spreads their "best practices" for recycling and dismantling E-waste. Emerging markets have large populations and high density, making the environmental concern and the negative impact of waste (such as E-waste) more serious than in developed countries.

High-tech companies, in particular, have an increased opportunity to successfully enter emerging markets by investing in education. Investment in education is efficient because it can integrate technology and products (such as Dell and Cisco) into the communities early. The benefit of this first mover advantage is obvious as people become trained on particular products/technology, embedding the companies deeper and deeper into the communities and the minds of the local consumers. In addition, this nurtures specialists and contributes to the local societies.

A good corporate citizen must also consider the importance of having positive relations with local organizations and governing bodies. It is clear from Coke's situation that they did not seriously consider initial concerns voiced from the local Indian government and interest groups. As a result, they are now faced with major repercussions. On the other hand, Dell's careful consideration of discussions with the EPA (which led to Dell's Design for the Environment Program) is a clear example of how successful and mutually beneficial relationships evolve.

APPENDIX

Plan for Sustainable Development