

Doing Business in Emerging Markets

Session 2 “Expansion into Emerging Markets”

Daria Kautto

26.10.2023



Aalto University
School of Business

Who are we?



Yian Chen

Doctoral Researcher in International Business

Educated in the People's Republic of China, United Kingdom, Kingdom of Sweden, Czech Republic, Republic of Slovenia (EU Erasmus+ exchange) and the Republic of Finland



AIESEC



Erasmus+

Enriching lives, opening minds.

Started the Aalto Doctoral Program in Sep 2021

Research topic: Organisational culture and Firm Innovation in the Nordic and Chinese contexts

♥ Love reading (culture, economics & history, etc.), movies and music, tourism and trekking (48 countries), table tennis.

Agenda for today

09:00 – 10:00

- News from emerging markets
- What makes emerging markets attractive?
- Assessing market potential

10:00 – 10:15 *Break*

10:30 – 11:45 International market entry / Case: Tim Hortons

Any news from Emerging Markets?

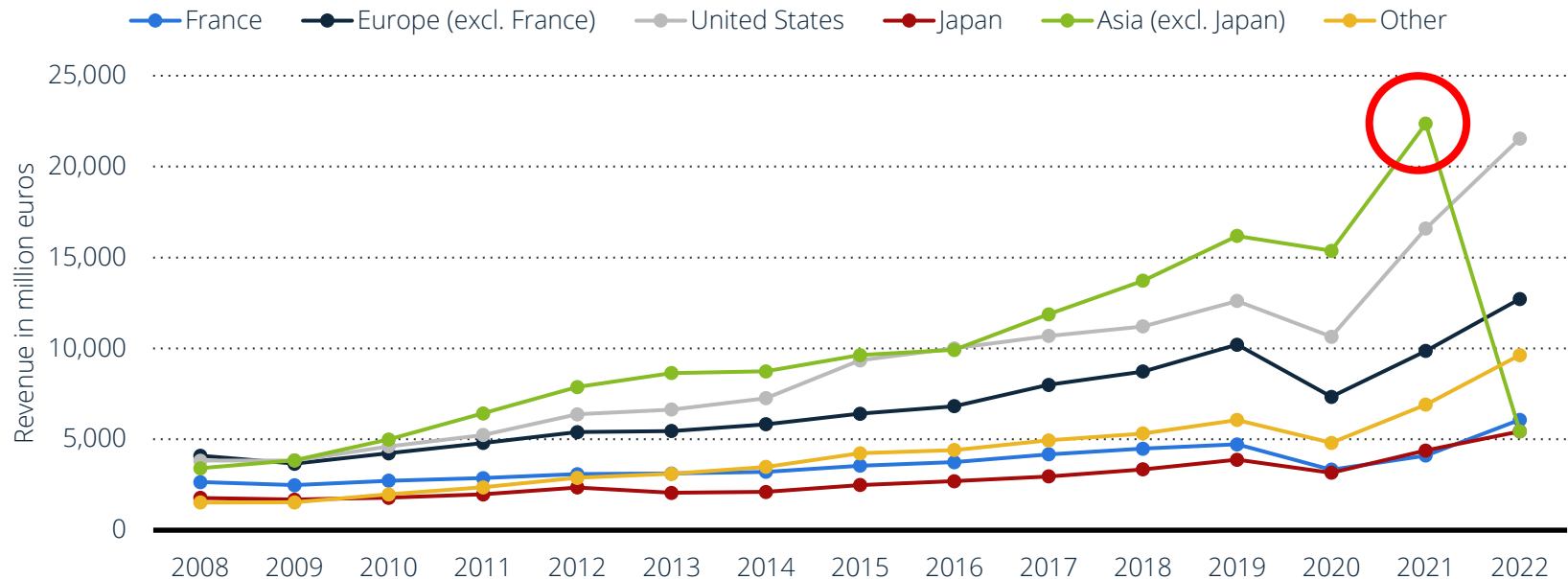
Attractiveness of Emerging markets





Revenue of the LVMH Group worldwide from 2008 to 2022, by geographic region (in million euros)

LVMH Group's revenue worldwide 2008-2022, by geographic region



Note(s): Worldwide; 2008 to 2022

Further information regarding this statistic can be found on [page 8](#).

Source(s): LVMH; [ID_410638](#)



lefties

MANGO

PULL&BEAR



Mercedes-Benz



TOYOTA



ZARA

OYSHO

TENDAM



Massimo Dutti
- SINCE 1985 -



RENAULT



HONDA



SCANIA

SKODA



DAIMLER



Stradivarius

UTERQÜE

mothercare

INDITEX

GUCCI



LOUIS VUITTON

ASOS



PEPSICO

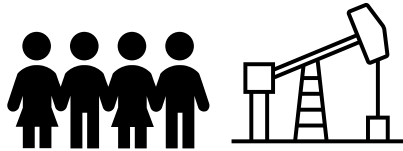
Country risk



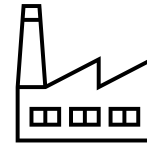
October, 6 2022 **EU's 8th sanctions package for Russia** further restricted trade and extended the export bans (i.e. European entities cannot sell certain products to Russia) for aviation items, electronic components and specific chemical substances, provision of architectural, engineering and IT consultancy services

Sanctioned products also include e.g.: cutting-edge technology, luxury goods, transportation, oil-refining, energy industry equipment, etc.

Internationalization motives in emerging markets



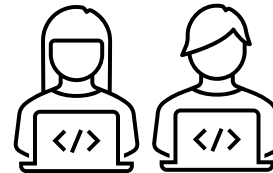
Target market



Manufacturing base



Sourcing destination



R&D

Internationalization motives

(Dunning, 1993; Benito, 2015)



New Markets



Resources

5 MOTIVES TO DO BUSINESS ABROAD



Efficiency

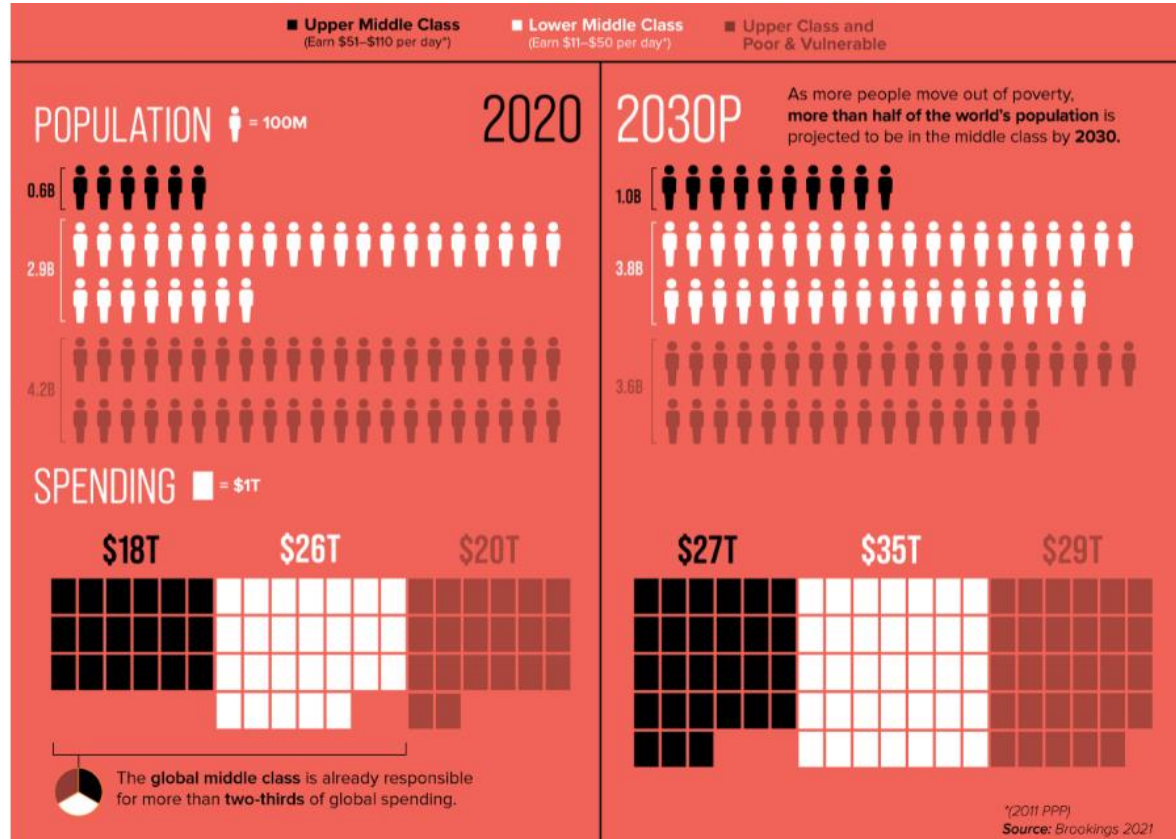


Strategic
Resources



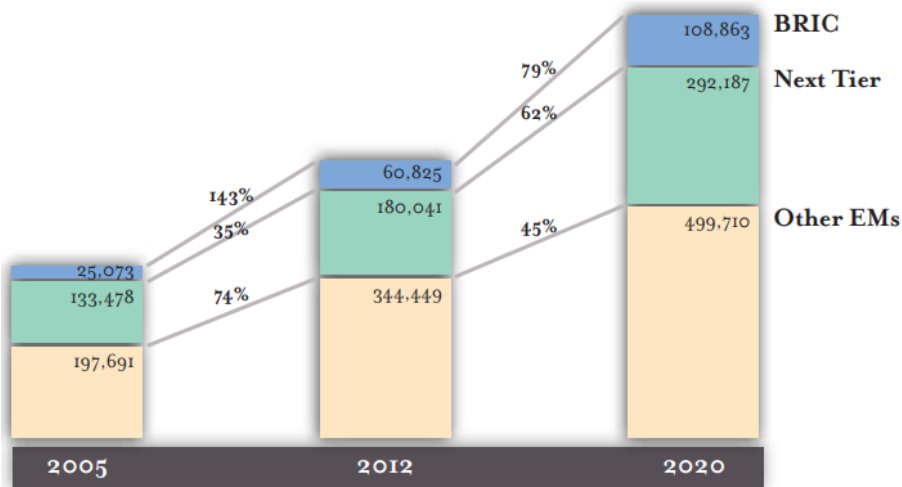
Strategic
Partnerships

Primary attraction - Middle Class



GSU-CIBER Middle Class Scorecard (Emerging Markets)

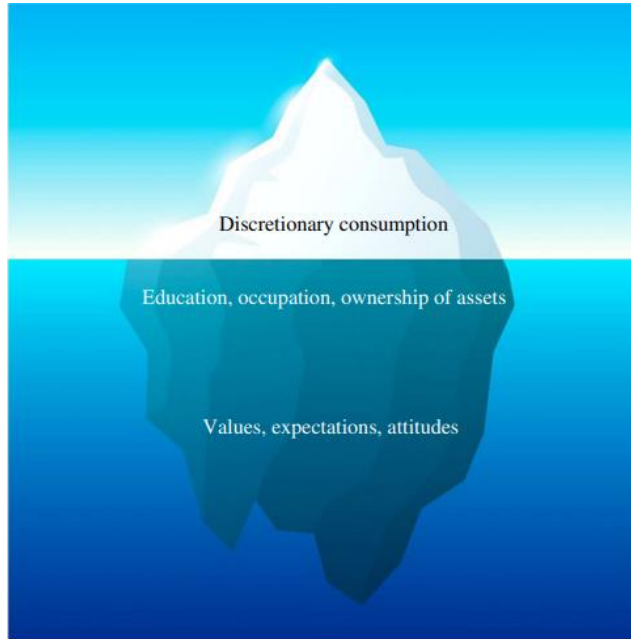
GROWTH IN TOTAL HOUSEHOLD EXPENDITURE US \$ AFFLUENT MIDDLE CLASS



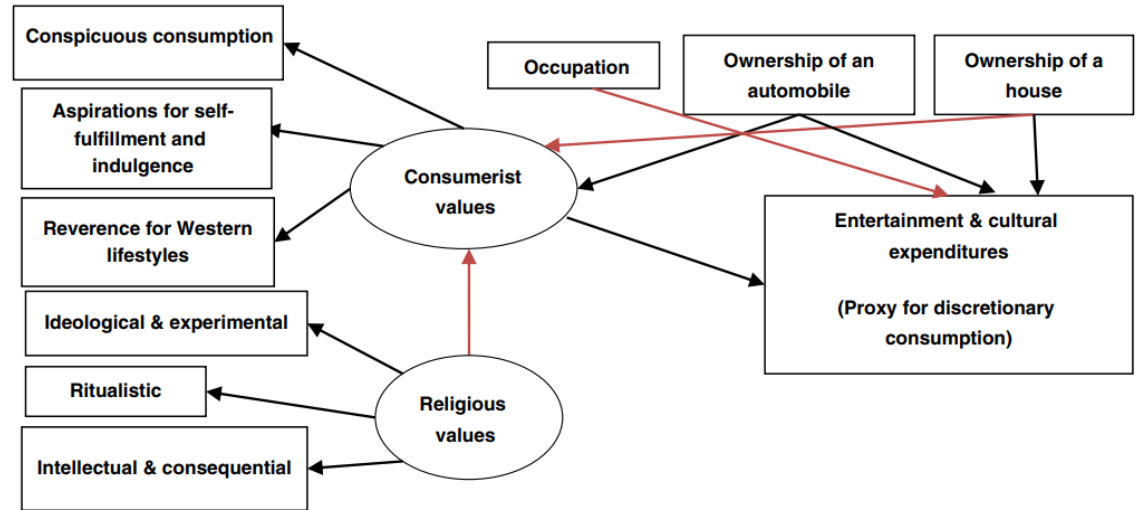
Calculated from Euromonitor International data, 2013 / © Cavusgil/Kardes 2013 / GSU-CIBER

- Components: (1) household expenditures, (2) household disposable income, (3) urban population
- Data is weighted, available for 25 EMs
- MC is not homogeneous in EMs: Mass and Affluent middle class
- Estimates of total market size

Emerging Markets Middle Class

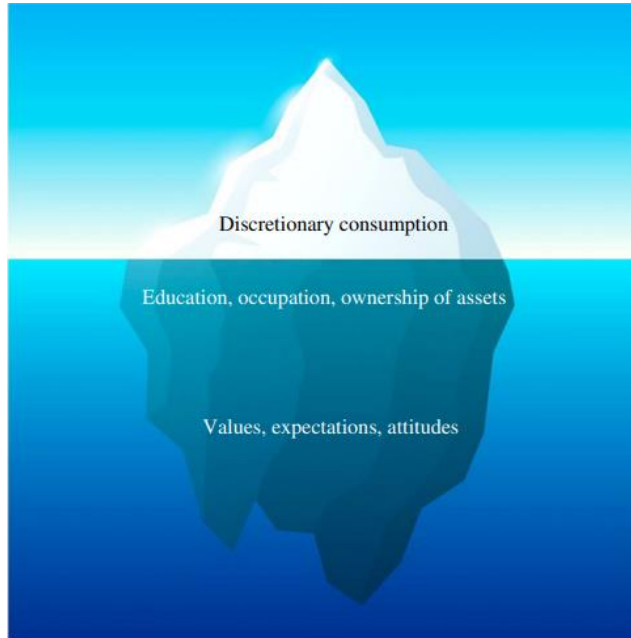


Source: Cavusgil & Kardes, 2013



Source: Belbag et al. (2019) The new middle class in emerging markets: How values and demographics influence discretionary consumption. *Thunderbird International Business Review*, 61: 325-337.

Emerging Markets Middle Class



Source: Cavusgil & Kardes, 2013

- Understand and qualify new middle class in EMs not only by their access to disposable income but also deeper attitudinal and behavioral characteristics;
- “Consumption experiences”
- Personalization

Source: Belbag et al. (2019) The new middle class in emerging markets: How values and demographics influence discretionary consumption. *Thunderbird International Business Review*, 61: 325-337.

How to assess Emerging Markets Potential?

Screen

Screen Countries to Identify Target Markets

Goal:

- Reduce the number of countries
- Allow in-depth investigations

Activities:

- Define a selection criterion (e.g. size, growth rate)
- Classify five or six countries

Assess

Assess Industry Market Potential

Goal:

- Estimate the industry market size
- Identify barriers to entry

Activities:

- Evaluate the industry market potential through criteria's (e.g. trends in the industry, market size and growth rate)
- Identify trade tariffs and regulations
- Determine marketing preferences (e.g. packaging, prices)
- Develop an industry sales forecast plan (3 to 5 years)

Choose

Choose Foreign Business Partners

Goal:

- Determine partners' qualifications
- Select the ideal partner
- Determine market entry strategy

Activities:

- Define foreign partner activities
- Determine the desirable attributes for the foreign partner
- Define a selection criterion (e.g. financial and technical expertise)
- Classify potential foreign partners

Estimate

Estimate Company Sales Potential

Goal:

- Estimate the company market share per target country over time

Activities:

- Evaluate the company sales potential through criteria's (e.g. foreign partner capabilities, access to distribution)
- Develop the company sales forecast plan (3 to 5 years)
- Determine the factors impacting company sales potential

Techniques to Screen Emerging Market Potential

Gradual Elimination

- Starts with a wide range of potential markets
- In-depth market analysis to reduce the number of candidates
- Filtering allows to focus on specific indicators

Indexing and Ranking

- Starts with the definition of market potential indicators
- Evaluate the relative importance of each indicator
- List with countries classified according the importance

Step 1:

Screen

Screen Countries to Identify Target Markets

Goal:

- Reduce the number of countries
- Allow in-depth investigations

Activities:

- Define a selection criterion (e.g. size, growth rate)
- Classify five or six countries

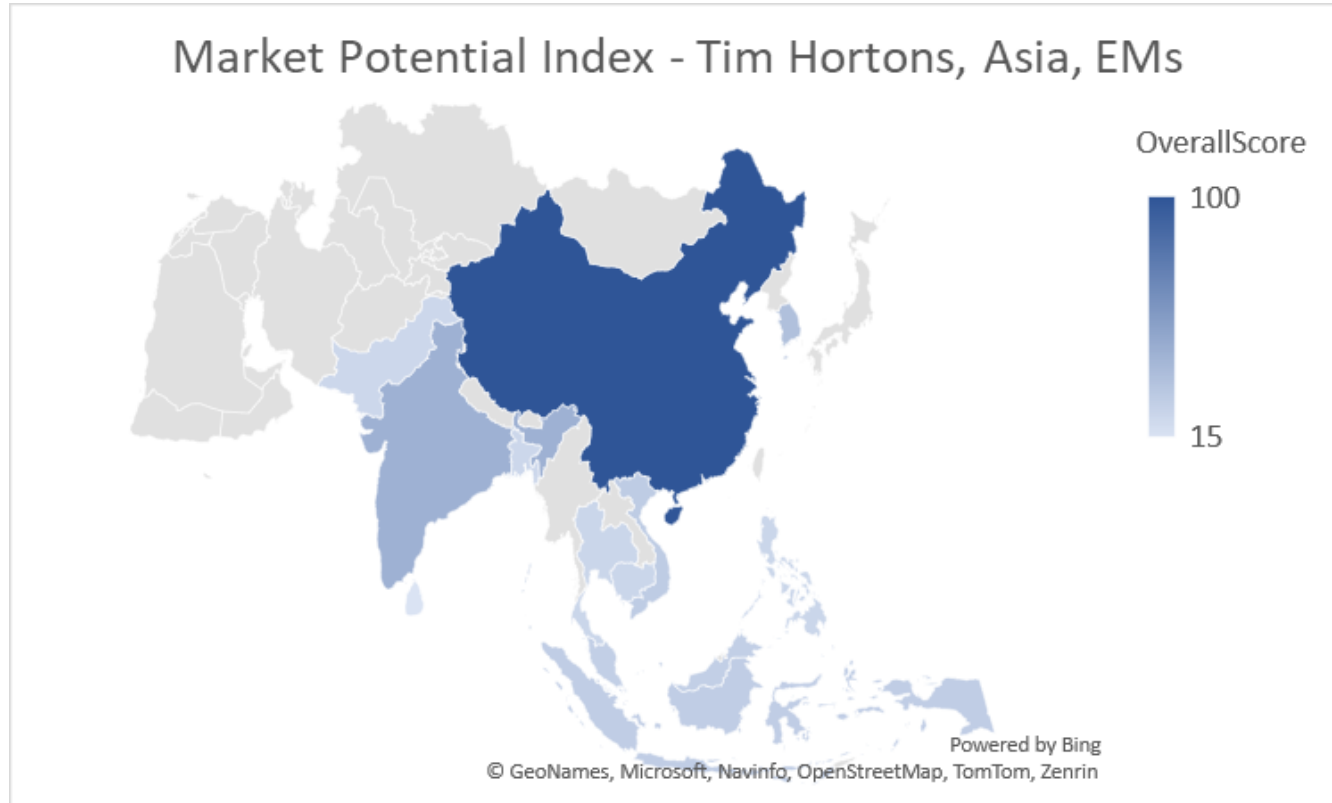
Tim Hortons pursuing its global strategy is interested in expansion into emerging markets in Asia.

1. What **selection criteria** would you use to identify potential target markets?
2. What could be **FOUR potential target markets** for Tim Horton's international expansion in Asia?

Macro Indicators of County Attractiveness

Dimension/Country	Logistics Performance Index	Ease of Doing Business Ranking	Trade Freedom Index	Investment Freedom Index	Global Competitiveness Index
Brazil	2.99	124	67.8	60	60.9
China	3.61	31	72.4	20	73.9
India	3.18	63	73.4	40	61.4
Indonesia	3.15	73	80.8	50	64.6
Mexico	3.05	60	87.6	75	64.9
Poland	3.54	40	86.4	80	68.9
Russia	2.76	28	77.8	30	66.7
Turkey	3.15	33	78	70	62.1
U.S.	3.89	6	79.8	85	83.7
Source	World Bank	World Bank	Heritage	Heritage	WEF
Latest data	2018	2019	2020	2020	2019
Scale	Weight results across time (lowest is 2 highest is 4.16)	Global Ranking 1 to 190 (the lower the better)	Composite measure ranging from 0 to 89.4 (highest)	0 to 100 (highest)	0 to 100 (highest)

GlobalEDGE Market Potential Index



- Market size
- Market Growth
- Market Intensity
- Consumption
- Commercial infrastructure
- Market Receptivity
- Economic Freedom
- Country Risk

GlobalEdge MPI (Indexing data)

Rank	Country	MarketSize	MarketGrowth	MarketIntensity	MarketConsumption	CommercialInfrastructure	MarketReceptivity	EconomicFreedom	CountryRisk	OverallScore
1	China	100	87	1	100	100	10	27	66	100
2	Singapore	2	52	60	59	79	100	82	94	51
3	Hong Kong	2	40	89	58	85	86	42	78	46
4	India	37	67	22	39	46	10	54	51	45
11	South Korea	7	51	39	51	66	20	83	94	36
33	Vietnam	4	85	8	26	52	31	57	51	29
36	Indonesia	11	67	22	26	41	10	66	66	28
40	Malaysia	3	52	39	27	53	26	64	69	27
50	Thailand	4	46	21	26	65	22	47	63	23
51	Cambodia	1	100	29	15	32	22	40	30	23
52	Philippines	4	60	49	14	36	13	59	57	23
59	Bangladesh	5	85	37	19	33	4	41	38	22
60	Pakistan	6	71	60	26	30	8	37	15	22
80	Sri Lanka	1	54	46	13	47	10	48	7	15

GlobalEdge Country Comparator

Country	Foreign direct investment, net inflows (BoP, current US\$)	Population density (people per sq. km of land area)	GDP growth (annual %)	Population, total	Urban population growth (annual %)
Bangladesh	1.555		7.1	171,186,372	3.02
China	180.167		2.991	1,412,175,000	1.649
Hong Kong	120.952		-3.476	7,346,100	-0.908
Indonesia	21.428		5.309	275,501,339	1.754
Malaysia	14.726		8.694	33,938,221	1.744
Pakistan	1.339		6.188	235,824,862	2.667
Philippines	9.2		7.57	115,559,009	2.076
Papua New Guinea	0.327		4.6	10,142,619	2.855
South Korea	17.996		2.561	51,628,117	-0.21
Sri Lanka	0.898		-7.824	22,181,000	0.989
Thailand	10.196		2.595	71,697,030	1.516
Vietnam	17.9		8.02	98,186,856	2.594
India	49.94		7.003	1,417,173,173	2.025

Assessing Industry Market Potential

Simple trend analysis

- Quantifies the total likely amount of industry market potential
- Examines the aggregate production for the industry as a whole. Adding imports from abroad and deducting exports

Monitoring key industry-specific indicators

- Attributes industry-specific indicators such as demand variation impact
- Examines unique industry drivers of market demand by collecting data from various sources

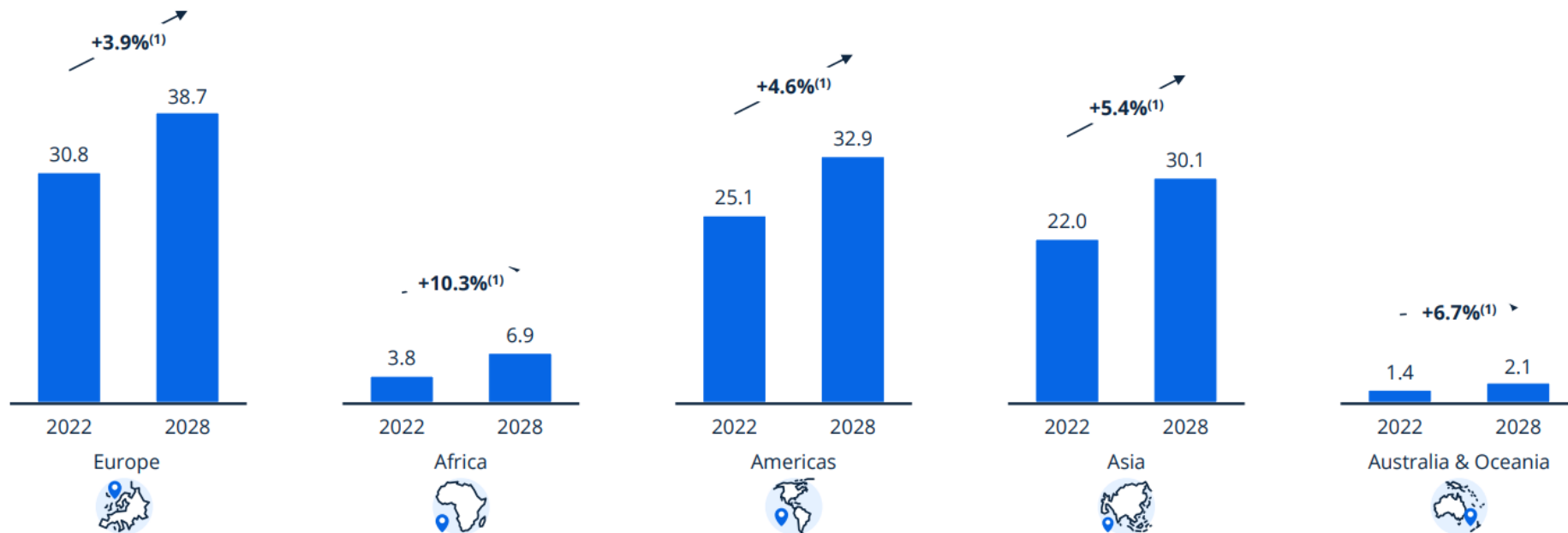
Monitoring key competitors

- Investigates the degree of major competitor activity directly or indirectly (through supplier networks)
- Examines potential impact of competitive move in the demand

With revenue of US\$ 30.8 billion, Europe is the biggest market among selected regions in 2022

Market Size: Regional Comparison (1/2)

Revenue in billion US\$

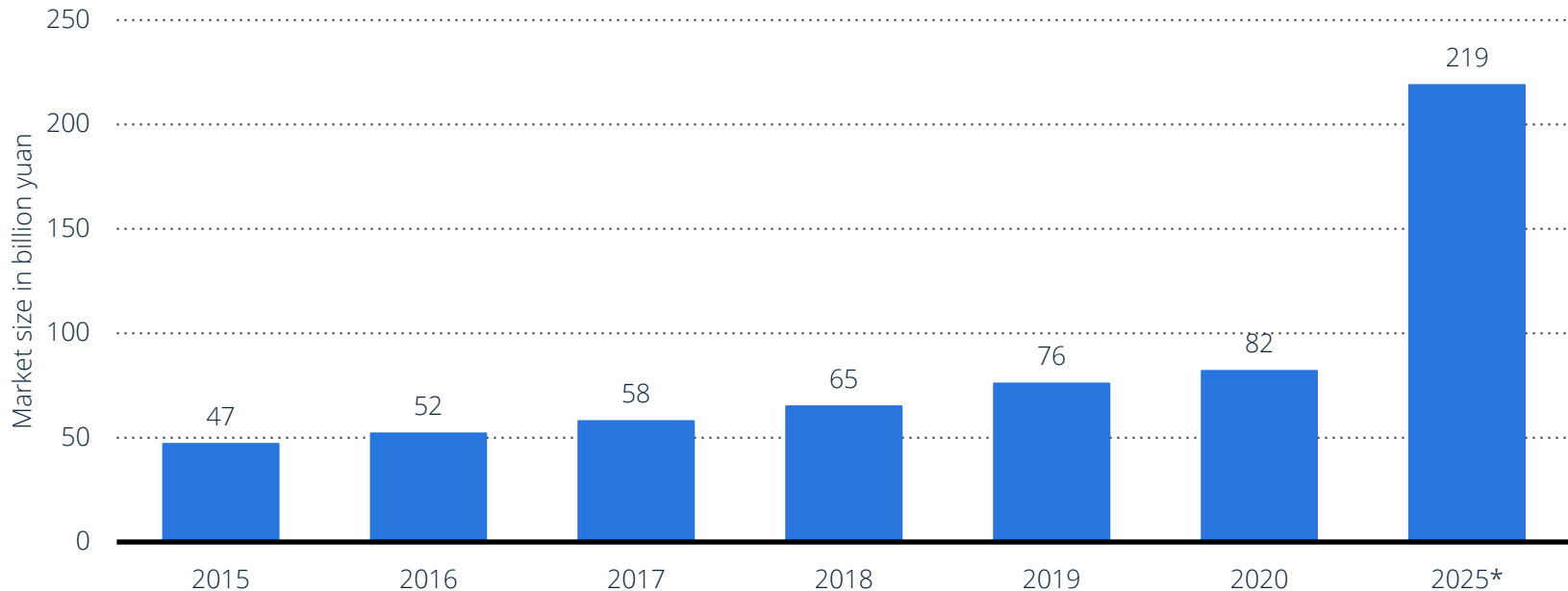


10 Notes: (1) CAGR: Compound Annual Growth Rate

Sources: [Statista Market Insights](#) 2023

Coffee market size in China from 2015 to 2020 with an estimate for 2025 (in billion yuan), CAGR 22%

Coffee market size in China 2015-2025



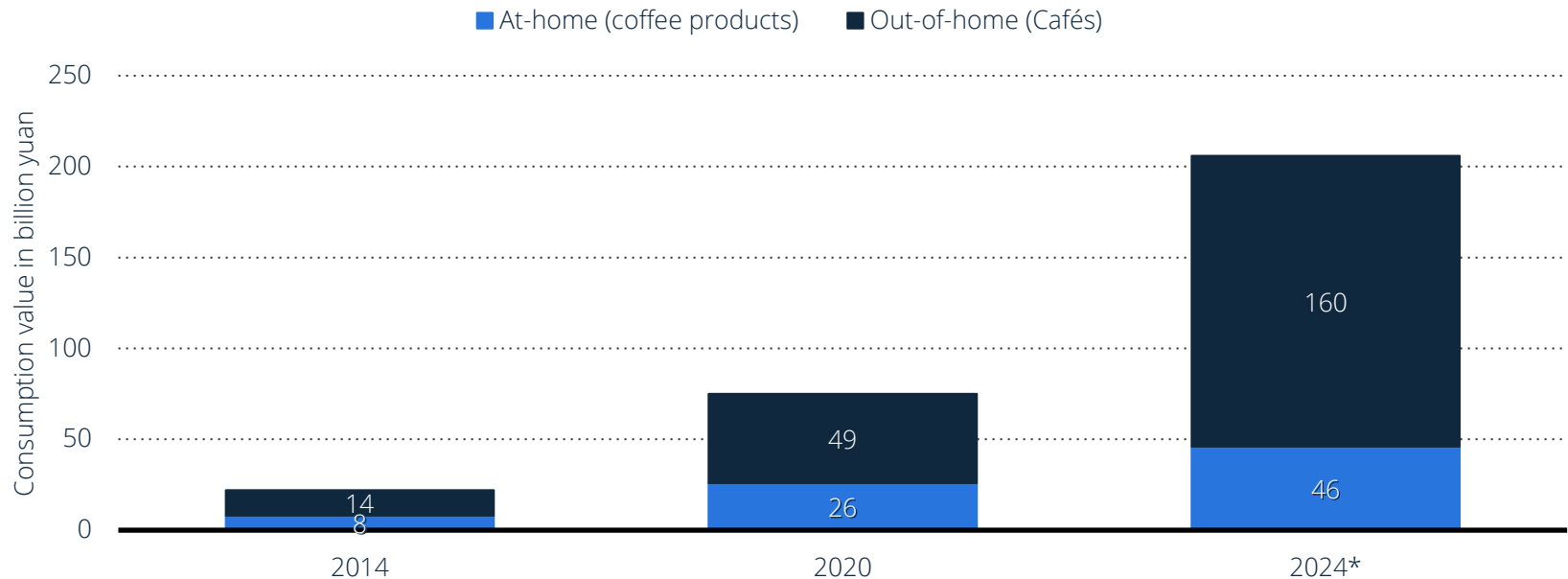
Note(s): China; 2015 to 2020; including freshly-ground coffee, RTD coffee, and instant coffee; excluding coffee beans

Further information regarding this statistic can be found on [page 8](#).

Source(s): Euromonitor; Meituan Dianping; Analysys; [ID.1171765](#)

Consumption value of coffee in China in 2014 and 2020 with an estimate for 2024, by location (in billion yuan)

Coffee consumption value in China 2014-2024, by channel



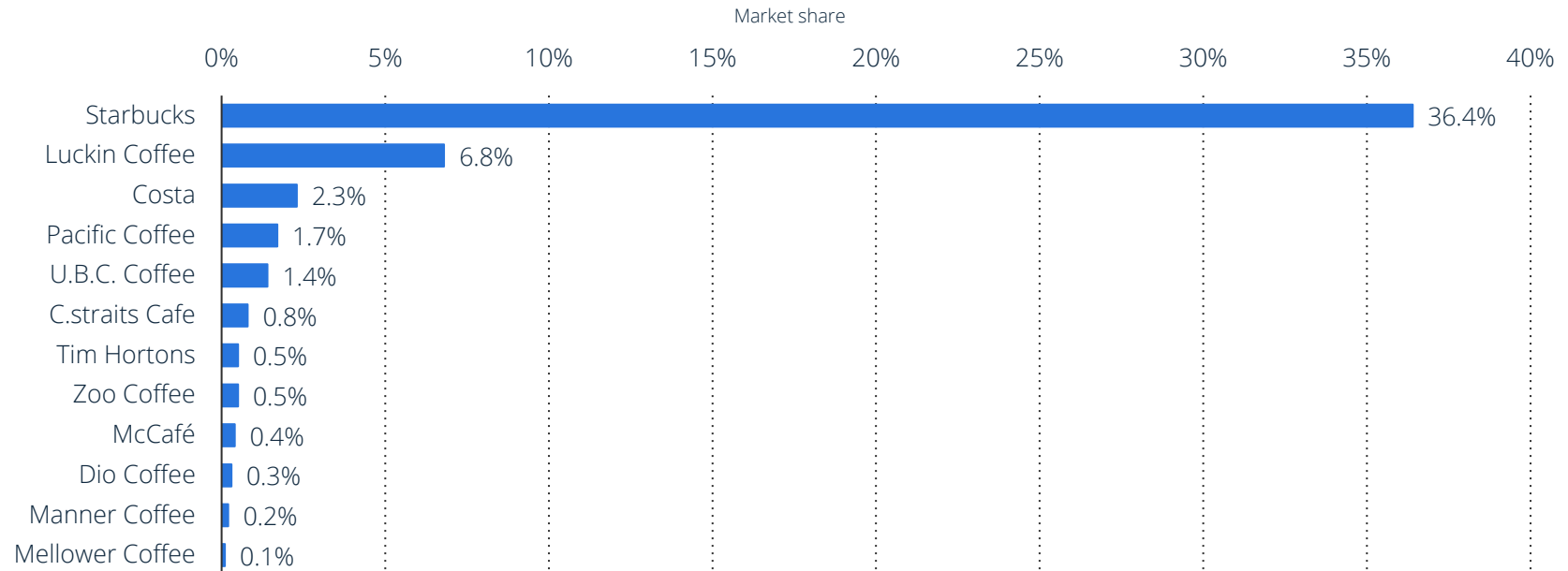
Note(s): China; 2014 and 2020

Further information regarding this statistic can be found on [page 8](#).

Source(s): CITIC Securities; Website ([zhitongcaijing.com](#)); Frost & Sullivan; Yum China ; [ID.1303985](#)

Freshly ground coffee market distribution in China in 2020, by brand

Fresh coffee market share by brand in China 2020



Note(s): China; 2020

Further information regarding this statistic can be found on [page 8](#).

Source(s): Euromonitor; CIC; CITIC Securities; Website (zhitongcaijing.com); ID.1171833

Tim Hortons in China



Case Tim Hortons

- Canada's largest quick-service restaurant chain, with **5,352 restaurants in 15 countries**, as of June 30, 2023
- Founded in 1964 by Tim Hortons
- Acquired by Wendy's in 1995, independent publicly traded in Canada since 2009, acquired by Brazilian 3G capital (owner of Burger King) in 2014, Burger King & Tim Hortons merged into Restaurant Brand's International (RBI)



Restaurant Brand's International

- One of the largest fast-food restaurant chains in the world, a combination of Burger King, Tim Hortons, Popeyes, and Firehouse Subs (since 2021);
- The revenue is directly influenced by the system sales across the brands => How could the revenues be increased then?
- 14% y-o-y system-wide sales growth Q2 2023
- 4,1% net restaurant growth in Q2 2023
- Tim Hortons (~5,352 locations), Popeyes, and Firehouse Subs are far less penetrated across international markets compared to Burger King (~17,800 locations)



Tim Hortons 2023



(24) Biebs Brew: Tims x Justin Bieber – YouTube (“Timbiebs”)

- Approx. 60% of RBI’s revenue
- Systemwide sales in 2019 – 6,7 billion, 2020 – 5,5 billion, 2021 – 6,53 billion, 2022 – 7,16 billion
- **27%** Tim Hortons international sales growth in Q2 2023 (in Canada 13%, 68% of stores)
- China y-o-y Q2 2023 sales growth?

Tim Hortons International Expansion

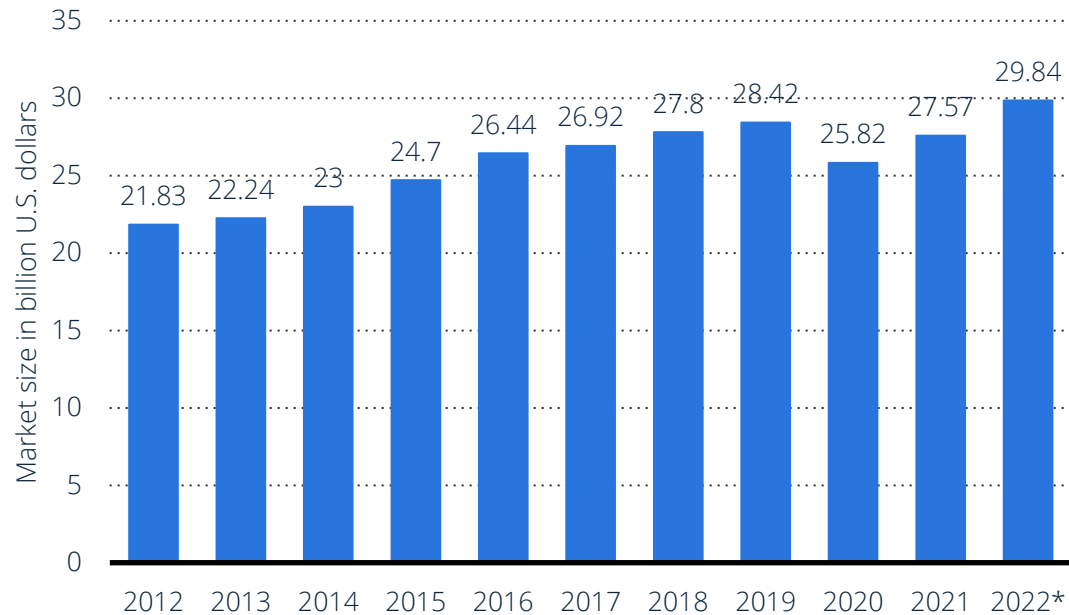
- 1990s – USA
- 2017 – Phillipines (Manila), UK, Mexico, Spain (Madrid)
- 2018 – Ireland
- 2019 – China, Shanghai (JV with Cartesian Capital)
- 2020 – Mexico, Thailand (Bangkok)
- 2021 – China, Beijing
- 2022 – India (New Dehli x 2 and Gurugram)
- 2023 – Pakistan



What are the motives for Tim Hortons to expand internationally?

Market size of the quick service restaurant sector in Canada from 2012 to 2021, with a forecast 2022 (in billion U.S. dollars)

Quick service restaurant industry market size in Canada 2012-2022



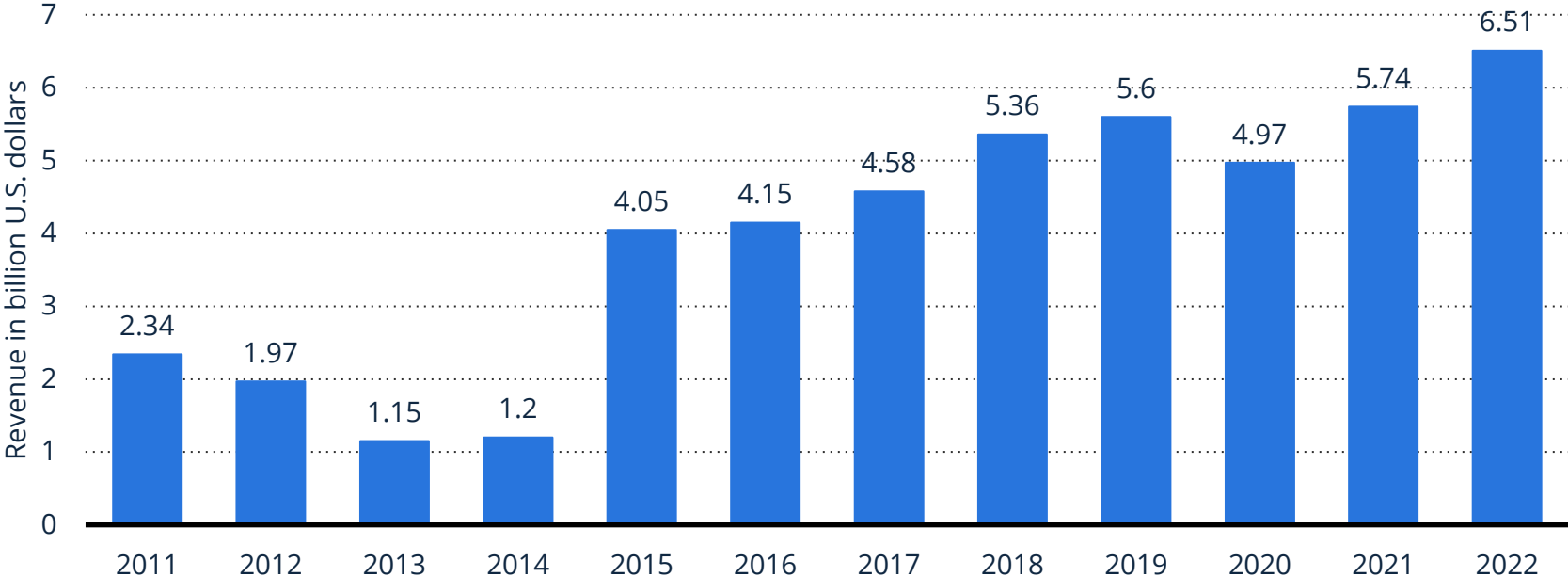
Note(s): Canada; 2012 to 2021

Further information regarding this statistic can be found on [page 8](#).

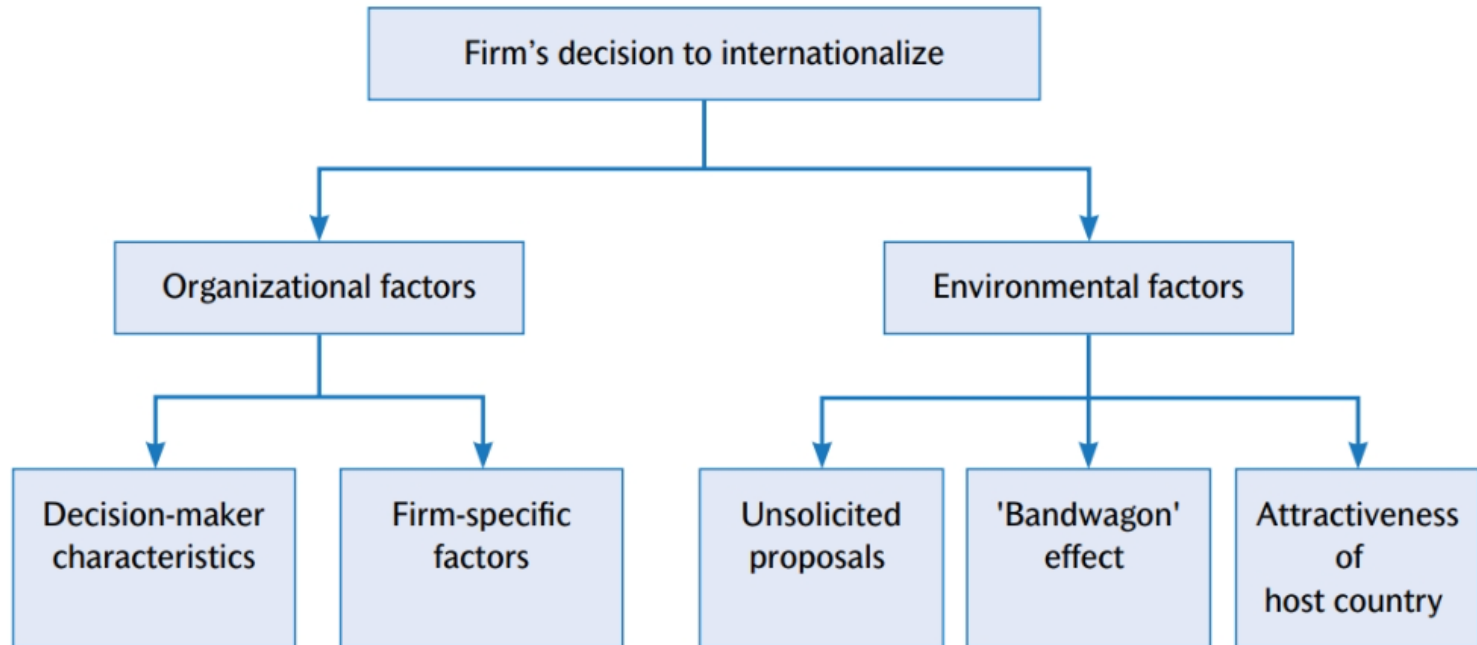
Source(s): IBISWorld; ID 1186278

Revenue of Restaurant Brands International worldwide from 2011 to 2022 (in billion U.S. dollars)

Revenue of Restaurant Brands International worldwide 2011-2022



Factors behind the decision to internationalize



What are the challenges associated with foreign market expansion?

Obstacles to internationalization

- Liability of foreignness
- Liability of expansion
- Liability of newness
- Subjective managerial perceptions (“psychic distance”)

Why China?



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slido.com
#3102 636



Why did Tim Hortons choose China?

1. Large population
2. Growing middle class
3. Demand for Western lifestyle
4. Immature market
5. Few strong competitors
6. Alignment with its global expansion strategy

Join at

slido.com

#3102 636



Rationales for TH to enter China

- Continuation of global expansion strategy (outside of Canada and USA)
 - Wendy's
 - Middle East (small scale)
 - 3G Capital since 2014 - USA
 - Emerging markets –China, Mexico, India
- Favorable market conditions in Asia:
 - Largest population in the world
 - Growing middle class
 - Western lifestyle
 - Immature market
 - Few strong competitors (beyond Starbucks)
- Preliminary knowledge about Chinese market (3G Capital, RBI, Cartesian Capital)

What entry mode choices did Tim Hortons have in China?

Entry mode alternatives

Export

- Indirect
- Direct

Contractual

- Licence
- Franchise
- Management or service contracts

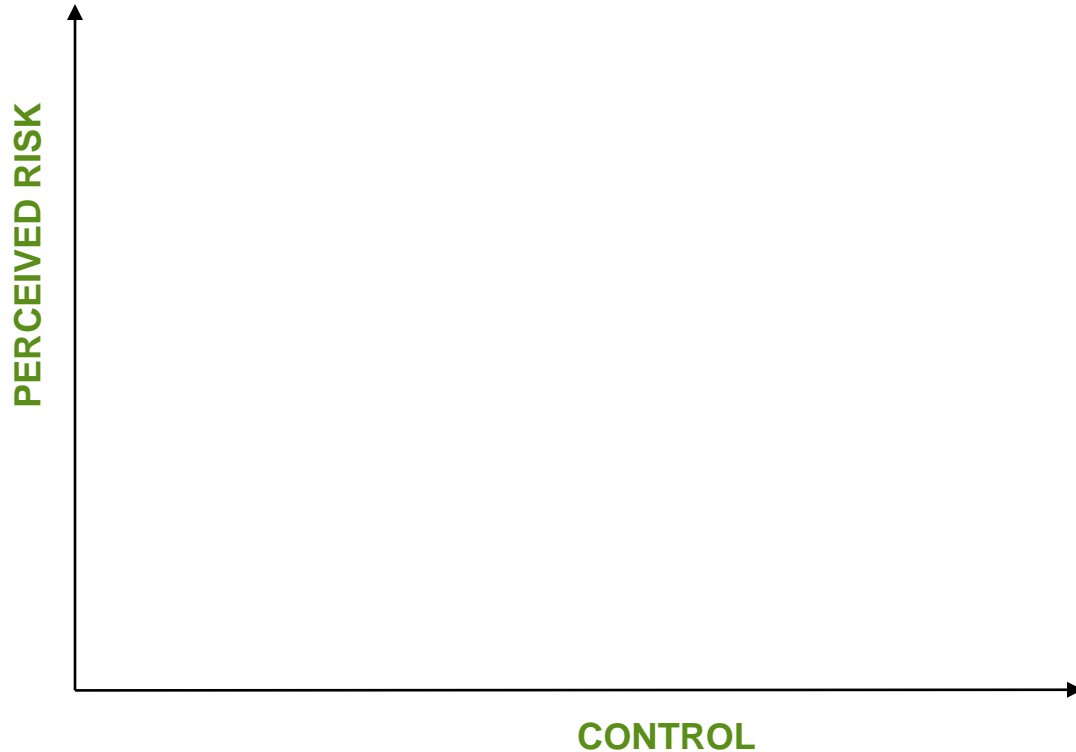
FDI

- Greenfield investment
- Acquisition
- Joint venture



- Each mode has distinctive costs and benefits and requires different management
- Choice should be linked to strategic objective of the market entry
- Operating mode is a dynamic option that evolves with environmental and strategic changes

How would you locate entry modes on the graph?



Wholly-owned ventures/greenfield

PROS

- Able to control operations abroad
- High experiential knowledge
- Low level of conflict between subsidiary and foreign firm
- Does not have a problem of integration
- Strong attachment to a parent firm

CONS

- Cannot rely on pre-existing relationships with customers, suppliers, governmental officials
- Potential difficulties with accessing managers and employees familiar with local market conditions
- Liability of foreignness

International joint venture

PROS

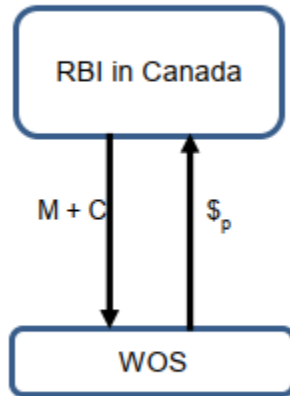
- Sharing liabilities with a partner (risks, costs)
- Access to new knowledge and expertise, incl. talent
- Use of joint venture partner's customer data
- Access to networks (supply, distribution, government, etc.)

CONS

- Who is your partner?
- Objectives and expectations
- Culture and management styles
- Level of expertise may not match

Two entry modes for Tim Hortons

Wholly Owned Subsidiary (WOS)

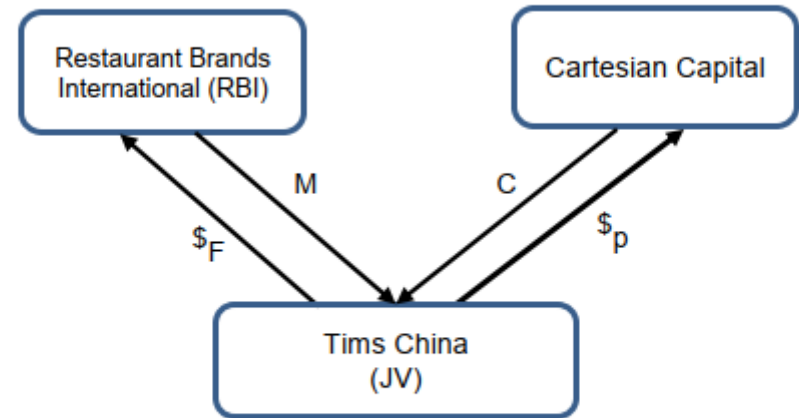


M = business model (menu, trademark, store decor, service procedure, etc.)

C = Capital

\$_p = Profits

Joint Venture (JV)



M = business model (menu, trademark, store decor, service procedure, etc.)

\$_F = Franchising fee

C = Capital

\$_p = Profits

Tims China

- Majority ownership by Cartesian Capital
- **Master franchise** rights to the foreign subsidiary (use of trademark, core product items, operating procedures, process of inventory control, the right to sub-franchise)
- Experience in foreign market expansion in China, experience in fast-food sector (Burger King)



International franchising (risks)

- Master franchisee may not follow directives of the franchisor (lack of control);
- Master franchisee may not understand the fundamental concept of franchisor and cause miscommunication;
- Franchisors are responsible for improving the quality of the product, policing outlet quality, and promoting the brand => a risk of “free riding” / reduced quality
- Damage of the franchisor’s image and reputation



How should Lu position and expand the brand in China?

Market expansion strategy

In-class group assignment:

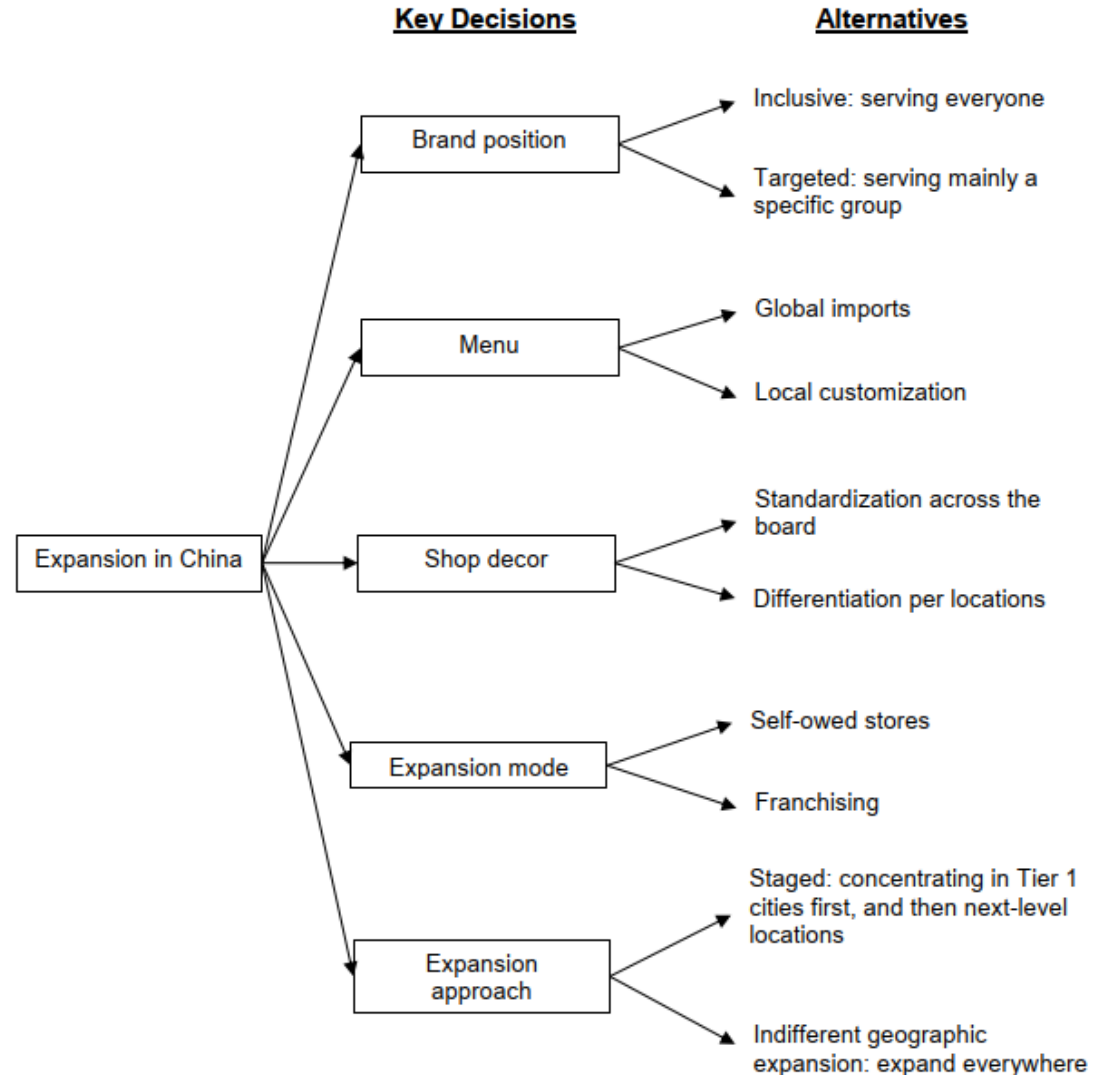
Now when the first store is open, Tim Hortons continues its expansion in Chinese market.

Please, formulate the market expansion strategy for the company considering the following key decisions:

- Brand position
- Menu
- Shop décor
- Expansion mode for the stores
- Expansion approach (geographic segmentation)

Provide arguments and facts to support your decision-making.

Market expansion strategy



Country of origin

- Country of origin effect
 - = *positive or negative quality perceptions of products based on their country of origin*
- Elements of COE:
 - Experience & knowledge
 - Stereotypes & ethnocentrism
 - Political and/or cultural relations between countries
 - Level of the country's economy & technological advancement

Market expansion strategy

- **Brand Position** (=a quality signal to customers)
 - Highly respected & strongly loved => an important success factor at home
 - Unknown brand in China => define it + define the target customer (business professionals, young students, seniors) => are there overlaps with competitors
 - Inclusive to a wide range of audiences (ubiquitous locations, inclusive orientation) vs Exclusive
- **Menu:** what items to include? Integration vs localization
- **Shop Decor:** consistency across locations vs adaptation
- **Expansion mode:** self-owned vs franchising
 - Franchising is used predominantly in other locations
 - Next-level franchising could be leveraged (secondary franchise rights)
- **Expansion approach:** stage vs indifferent

Expansion approach

- **Staged**

- Allows Tims China to focus on building shop density and service coverage quickly
- Allows to target first a sizable market in relatively smaller geographical areas with good infrastructure, qualified supply network, and mature coffee culture
- Allows to experiment with critical consumers and then replicate (DATA!)
- Opens the company to intense competition against other brands in major cities
- Latecomer disadvantages (opportunity costs) in lower-level cities

- **Indifferent**

- Allows to capture emerging opportunities from any location
- First-mover advantages in locations other have not yet entered
- Challenges with managing and coordinating the chain
- Slow gaining of economies of scale
- Large capital investments to build a supply network in geographically distant locations

Market expansion strategy

- Global integration vs Local adaptation
- Or an optimal balance of a transnational strategy?
 - Inclusiveness but positioning as a brand for young generation
 - A new maple leaf logo
 - Youthful image: bright colors, lightning, etc.
 - The shops in each major city contain some local elements
 - Menu is free BUT approved for the ingredient suppliers for EVERY NEW ITEM!
 - 70% of items are imported from Canada (“global cores”), 30% are local innovations
 - Stage approach

Tims China's future plans



- 700 stores in July 2023 (70% of new sites are franchised)
- 50% y-o-y Q1 2023 revenue growth
- Merger with Silver Crest Acquisition Corp, 5y plan - 2750 stores by 2026 in China
- Fundraising round from Sequoia Capital China, Tencent Holdings, Eastern Bell Capital, Alibaba => entered retail with “Tims Express” in 2022 => market expansion
- Re-launch Popeyes in China => Quick-service restaurant + Fast-food
- David Shear, President of RBI's International business: **“China is Tim Horton's “most important” international market”**

Key success factors

- **A reliable local partner**
 - Very important to have someone local who is well informed and has a first-rate network
- **Competent local staff**
 - “Business in China has to be done by Chinese” ?
 - Or returnees ?
- **Local network with important stakeholders**
 - Where relations are good, one can count on a very high degree of loyalty
 - A way to be preemptive towards corruption and other potentially unpleasant externalities
 - Even with an amazing product, the company still needs to become accepted within the targetted market and to generate the necessary support

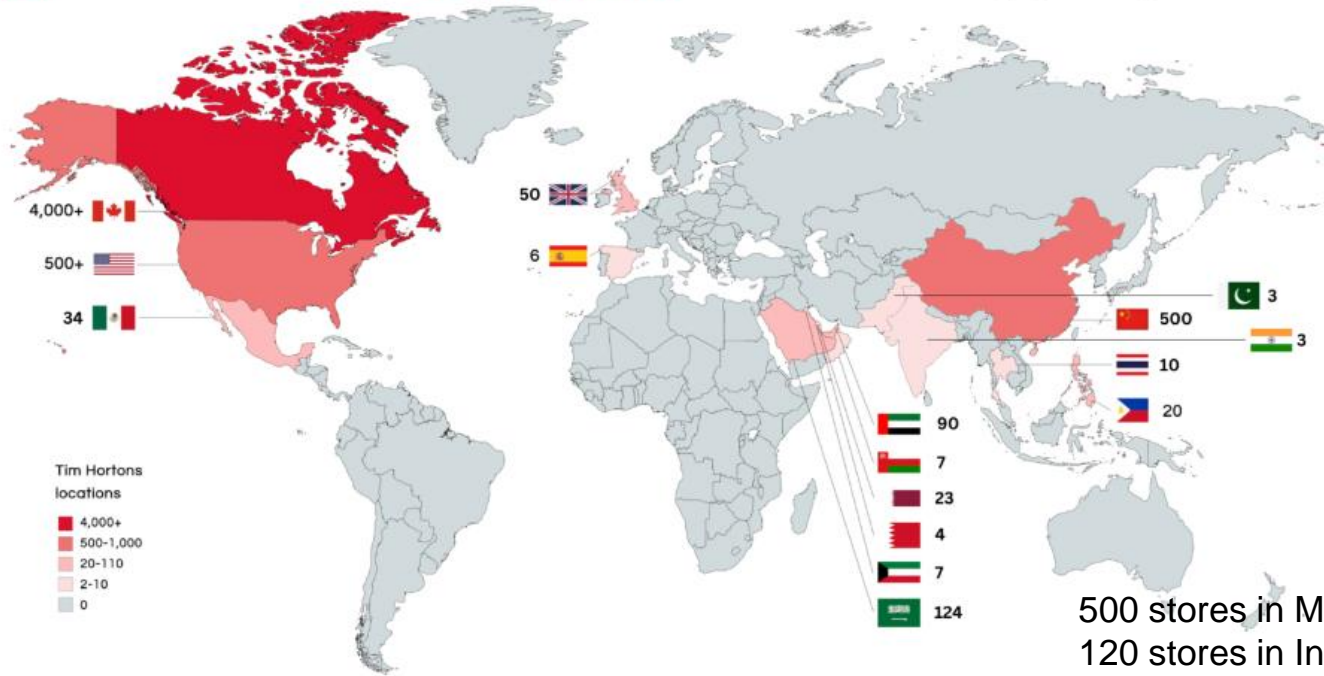
Other factors to consider

- **Cultural specifics – standardization vs. adaptation**
 - Differences in consumer tastes & preferences
 - Differences in infrastructure & traditional practices
 - Differences in distribution channels
 - Host government demands
- **Political risk and the ways to handle it**
- **Legal issues / risk / corruption**
- **Country of origin effect**
- **Market dynamics (currency volatility, forecasted growth, competitors)**

Tim Hortons 2023



Number of *Tim Hortons*. In Each Country (2023)



500 stores in Middle East by 2025
120 stores in India by 2026

“We envision an even stronger future, deeply rooted in the values and culture of every region,” said CEO of AG.

Wrap up

- International markets need to be selected pragmatically = synergy between the new market and firm's strengths, objectives and strategy + complementary markets (experience) + networks + coincidents
- An international market entry mode is an institutional arrangement necessary for the entry of a company's products, technology and human capital into a foreign market/country.
- Each entry mode has its advantages and disadvantages and needs to be aligned with firm-, industry- and market-level conditions.
- Operating mode is a **dynamic option** that evolves with strategic and environmental changes.
- If entering an emerging market, think long-term! Usually, these are not the markets for reaping the benefits fast. 😊

By the next session on 31.10

- Please, enroll for the group assignment 1 in Mycourses
 - Would like to have random allocation => drop an e-mail
- News from emerging markets
- Pre-readings for session 3

- If needed, you could compensate for the missed sessions with two (max.) additional assignments