REACHING THE EMERGING MIDDLE CLASSES BEYOND BRIC

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What can be taken for granted and what is effective in developed markets does not translate simply to emerging markets. From roads to running water, “social” marketing to product distribution, middle class homes to ideal product size: a one-size-fits-all business plan will not do. This paper discusses the key factors that companies must consider to successfully remodel their strategies, in order to tap into the enormous potential of emerging markets, especially that of middle class consumers beyond BRIC.
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INTRODUCTION

Whether eyeing a move to a neighbouring country or to an emerging market on the other side of the globe, the decision to expand beyond one’s core markets is never easy. Every potential gain in revenue or market share has a corresponding risk of failed product launches or underestimation of the competition. For companies looking for rapid, sustainable growth, even the decision of where to expand has become more complicated.

For years, Brazil, Russia, India and China have been the destination of choice for many FMCG companies, and with good reason—their populations are huge, their economies were growing quickly, as was their middle class, their infrastructure is improving every year, and the business environments are fairly welcoming. These countries are still promising targets in 2013, though their economies are slowing and their middle class consumers are becoming more savvy and selective about the products and services they want. Now, many companies are beginning to look beyond BRIC, into emerging markets that have a lot of untapped potential and seem poised for increased growth, year over year.

But there are scores of such emerging markets—how can a company find the one that suits its portfolio and risk level? How can you reach the middle classes in these markets? Is it safe to assume that a typical or average emerging market middle class consumer exists? (The short answer is: no!)

In this paper, we will discuss the appeal of emerging markets beyond BRIC, examine why a focus on the middle class is mostly justified, find out more about what this group of consumers is buying and why, and then close with a brief overview of other factors not to be forgotten in any complete market-entry strategy. This paper will equip readers with the strategies for success to win middle class consumers beyond BRIC.
THE RISE OF EMERGING MARKETS

The rise of emerging markets has been perhaps the defining feature of the global economy this century. In 2000, emerging markets as a whole accounted for just 37% of global GDP (in Purchasing Power Parity terms); in 2013 this figure is expected to reach 50%. Even as developed economies recover from the recession, and emerging markets enter a period of slower growth, global economic growth will continue to be strongly influenced by emerging markets.

In 2013 we are seeing a currency crisis with many emerging markets experiencing a sharp weakening of their currencies, shining the spotlight on these markets for all the wrong reasons. Nevertheless, the fundamentals of emerging markets mean that their long-term growth prospects should remain undimmed and they will continue to drive the global economy. Indeed, if harnessed correctly, the current pressures on these countries could be a force for good—galvanising governments into action in order to safeguard their success.

Contribution to Global Real GDP Growth: 2000-2020

Source: Euromonitor International from national statistics/International Monetary Fund (IMF)
Note: Data from 2013 onwards are forecast
The BRIC countries are in some senses the epitome of the emerging market story. These four large markets have seen their economies double in size between 2004 and 2013 and now account for a combined 21% of global GDP and 53% of emerging market GDP. Yet 2013 has seen a well-publicised slowdown in the BRIC markets with growth well below pre-financial crisis levels and the outlook is for more of the same, in that growth is not set to return to pre-crisis highs. There are problems—China is at the beginning of a shift to consumption-driven growth, Brazilian growth is fragile and the country has been beset by social unrest, India is suffering from the weak Rupee, and Russia is over-reliant on energy production and has a dilapidated infrastructure. However, this is not to say that these four economies, which in 2013 are expected to account for one in every six US$ spent globally, are has-beens. When it comes down to scale it is hard to compete with the four BRIC markets, which between them are home to 268 million households with an income over US$10k, which is more than the USA and eurozone collectively. Moreover, the BRIC markets are expected to add a combined US$3.3 trillion (in 2012 prices) to their consumer spending between 2013 and 2020. This is equivalent to another France and Germany combined.

BRIC v the Rest of the Emerging World

There are problems—China is at the beginning of a shift to consumption-driven growth, Brazilian growth is fragile and the country has been beset by social unrest, India is suffering from the weak Rupee, and Russia is over-reliant on energy production and has a dilapidated infrastructure.

BRICs: Yesterday’s News?
With BRIC economic growth frequently in the headlines it’s easy to think that the BRICs are yesterday’s news. Yet looking at the figures, this is far from being the case. A comparison of the BRICs against the world’s other emerging markets is revealing.
However, the emerging market dream does not begin and end with Brazil, Russia, India and China. Attention has turned to smaller markets, which are often experiencing faster rates of growth in economic, demographic and consumer market terms. These frontier markets bring many challenges for business; but with these challenges, come opportunities - particularly for those companies who are able to reap first-mover advantage and tailor their products, services, strategies and even business models in order to compete effectively. To find out more it is necessary to look deeper at economic, demographic and consumer market trends in BRIC and non-BRIC markets. A successful emerging market strategy is based on knowledge.

It’s the Economy, Stupid
The world’s interest in emerging markets is driven above all by their impressive economic performance. This was assisted by their remarkable functioning throughout the global financial crisis, where, taken as a whole, they escaped recession and drove global growth—while many advanced economies were in free-fall. The picture has changed somewhat since then, with advanced economies seeing their positions strengthening whilst emerging markets are seeing a slowdown. This slowdown at the present time remains a relative one; bearing this in mind, we predict that:

- Between 2013 and 2020 emerging market economies will grow almost three times faster than developed economies;
- Between 2013 and 2020 emerging markets will account for an average of 65% of global economic growth;
- By 2020, five of the world’s largest 10 economies will be emerging markets—China, India, Russia, Brazil and Mexico—accounting for a combined $47 trillion in GDP (in PPP terms).

Of course not all emerging market economies are performing well. Individual countries which fall within the umbrella term “emerging markets” vary dramatically in terms of their current performance and future prospects. On average and in real terms, emerging markets will see their economies expand by 45.6% between 2013 and 2020, but this ranges from a spectacular high of 173% in São Tomé e Príncipe to the dismal performance of Equatorial Guinea which, according to our forecasts, will actually have a smaller economy in 2020 in real terms than it does today (due to widespread poverty, falling oil production, political instability and a lack of economic diversification).
In 2013, GDP per capita in emerging markets ranges from $438 in the Democratic Republic of Congo, to $104,775 in Qatar (in PPP terms). Thirty-three emerging markets have a per capita GDP below $2,000 in PPP terms but the same number have a per capita GDP of above $15,000.

Some economies, such as Nigeria and Kenya have significant agricultural sectors whereas others are more focused on manufacturing—for example Belarus, where manufacturing accounted for 31.4% of GDP in 2012—or services, which accounted for 72.4% of GDP in Montenegro in the same year.

Differences in the structure of the economy have a huge impact on employment patterns and income distribution. With such divergences it is clear that a one-size fits all policy will not work across emerging markets: investors and marketers must consider each country in isolation.

BRIC markets may dominate in terms of the overall size of their economies, but they do not feature amongst the world’s five fastest-growing or even 10 fastest-growing emerging market economies. Looking at growth to 2020, China ranks best in 15th position, followed by India (19th), Brazil (107th) and Russia (109th). Yet in absolute terms, their sheer size matters; of the US$13.2 trillion expected to be added to emerging market GDP between 2013 and 2020 (in constant 2012 prices), the BRIC countries should contribute almost 60%, with the remaining US$5.4 trillion shared across 155 other emerging market economies.

**Fastest- and Slowest-Growing Emerging Markets 2013-2020**

Source: Euromonitor International from national statistics/International Monetary Fund (IMF)

Note: Data are forecast
Population matters

As well as being an engine of economic growth, emerging markets also drive global population growth. The favourable demographic situation in many emerging markets is a key to their future potential. This is because countries with ageing demographic profiles and slow population growth are often the ones experiencing sluggish economic growth. Conversely, those with young, fast-growing populations have greater potential for strong economic growth. Potential is the key word, however, as many other factors can prevent these countries from capitalising on their latent growth prospects.

- In 2013 emerging markets are home to 85% of the world’s population and 90% of those aged less than 30;
- The median age in emerging markets in 2013 is 28.4 years, 12.5 years younger than that in developed economies;
- Between 2013 and 2020 emerging markets will experience population growth three times that of developed economies.

That said, the emerging markets are a large group with many variations in terms of demographics. They range from Tuvalu with a population of 9,900 to China, the world’s largest country, with a population of 1.4 billion in 2013; from Bulgaria with a median age of 42.2 years in 2013 through to Niger with a median age of just 15.5 years in the same year; and the United Arab Emirates where 87.2% of the population is of working age, to Niger where just 48.9% are aged 15-64 in 2013.

It is worth noting that the BRIC markets are home to 48.4% of emerging market population. Meaning that companies interested in emerging markets beyond BRIC face a somewhat fragmented market. Nevertheless, with non-BRIC emerging markets home to 3.1 billion people in 2013—three times the current size of the total population of all developed countries—the market, taken altogether, is hardly small. Indeed, five non-BRIC emerging markets have a population over 100 million in 2013 and seven are expected to top 100 million by 2020.
Consumer Spending Spree

The twin drivers of economic and demographic growth are leading to rapid increases in consumer expenditure, and once again, emerging market growth, at 43.4%, is forecast to be three times that of developed markets between 2013 and 2020. In fact, consumer spending growth in emerging markets has outpaced that of developed countries every year since 2000 and is expected to continue to do so.

Nevertheless, we must not forget that emerging markets’ spending power remains far below that of developed economies. Therefore, emerging and developing countries accounted for just over one third of global consumer spending in 2012. This will increase to 41% of global consumer expenditure in 2020—a smaller proportion than their economic weight would indicate.

We should also remember that once again the umbrella term “emerging markets” masks a wide variety of differing fortunes. For example, in 2013, 45 emerging markets have consumer expenditure above US$5,000 per capita, but 34 have spending below US$1,000. In a high-ranking market such as Chile, 69% of household budgets are available for spending on non-essentials (excludes housing, food and non-alcoholic beverages); while in a low-ranking country such as Kenya this drops to 47%. Thus, in markets with a low average spending level, not only is there a smaller pie, but there is also a smaller proportion of that pie available for spending on non-essentials. This is one reason that tailoring product offerings to local markets is crucial.
Looking at growth, non-BRIC markets are once again the frontrunners when it comes to the increase in spending. In fact, the BRIC countries have a mixed performance—in a ranking of 148 emerging markets only China makes the top 20 (in 19th position); the remaining BRIC countries fare considerably worse: Russia (64th), India (68th) and Brazil (76th). Nevertheless, one in every two dollars spent in emerging markets is spent in BRIC markets and their gains in consumer expenditure in absolute terms are expected to dwarf those of non-BRIC markets.

For many consumer goods and services businesses, the key component of consumer expenditure to consider when planning strategy is not total growth potential, but rather, the growth potential of non-essential purchases per capita and per household. This focus means paying close attention to what is happening to the middle classes in emerging markets.
WHO AND WHERE ARE THE MIDDLE CLASSES?

How to define the middle class?
The essence of a middle class consumer is the ability for discretionary spending on non-essential items. Analytically, there is no set definition of the middle class as income levels vary between countries depending on their economic development. Moreover, the idea of what constitutes the middle class changes significantly between emerging countries and advanced economies, where advanced nations have higher average incomes, creating differences in consumer spending power.

There have been numerous attempts to define a global middle class and some of the most commonly found definitions are:

- The number of households with between 50% and 100% of mean gross income
- The number of households with an income between that of Italy’s average and Brazil’s average in Purchasing Power Parity terms
- The number of households with more than 30% discretionary income
- The number of households with a disposable income of US$10,000 and above
- The number of households which fall into income deciles 4–7

In addition, non-income factors such as educational attainment or years of schooling and occupation also have a bearing on class status, but these can be extremely difficult to classify and standardise across a large number of emerging markets.
Other factors which also accompany or indicate middle class growth include: the possession of household durable goods, declining fertility rates, increasing penetration of technology, such as mobile phones, and increased consumer spending on education and healthcare.

Where are the middle classes?
It is clear why companies are increasingly looking beyond the core BRIC emerging markets—for pockets of fast-growth potential and the vibrant middle classes that can accompany this fast growth—but where exactly are these middle class consumers? Strong economic growth does not always go hand-in-hand with the growth of a robust middle class, so it cannot be used as the sole indicator of an attractive market. This is often the case when an economy is reliant on capital-intensive, rather than labour-intensive sectors such as mining, the proceeds of which often fail to trickle down to the vast majority of the population. Likewise, this is often the case where economic growth is the result of one-off factors such as a major foreign direct investment (FDI) project or recovery from a war. This explains why São Tomé e Príncipe and South Sudan can feature near the top of the ranking of fast-growing economies whilst suffering from stagnant growth in private consumption (São Tomé e Príncipe), and being mired in instability (South Sudan) and poverty (both).

Using the definition of the number of households with a disposable income over US$10,000, which provides a rough gauge and a straight-forward way of comparing a vast array of countries, and looking solely at the world’s 20 largest non-BRIC emerging markets, we can see that the proportion of middle class households ranges from 99.5% in the United Arab Emirates to just 4.8% in Kenya.
And how much do they earn?
Continuing to look at the world’s 20 largest non-BRIC emerging consumer markets, and using the definition of those earning between 50% and 100% of gross household income, we can see that a middle class income ranges from around US$3,000–US$6,000 per household in Nigeria up to US$74,000–US$150,000 in the United Arab Emirates.

Middle Class Gross Incomes in Selected Emerging Markets: 2013

Source: Euromonitor International from national statistics/Eurostat/UN/OECD
In some of these markets a middle class income remains relatively low, but companies may still want to consider a presence in order to begin to build brand awareness and create and shape the market for their offerings from the very beginning.

What makes the middle class such an important consumer group?
A middle class income is an indicator of sufficient spending power to consume non-essential goods and for many companies this segment is considered to be their mainstream target consumer.

In emerging markets, some of those entering the middle class will have the ability to spend on non-essentials for the first time, creating significant opportunities for consumer goods companies. For context, since the early days of market growth in the USA, the market leader in 1925 remained the market leader, or in second position, for the rest of the century—true for not only one or two, but for 17 product categories (Atsmon et al. 2012). Gaining first-mover advantage in emerging markets can, therefore, be a winning long-term strategy.

Engaging with these consumers at an early stage is also a great strategy for reaping long-term rewards. These consumers, once won, can be transferred up the value chain—from initial purchases of low-priced items through to purchases of increasingly sophisticated, higher-margin products and services. This is why an effective pricing strategy is crucial for companies to be able to attract middle class consumers with affordable choices, gain their trust, and then eventually be able to target them with more costly, value-added designs.

In economic terms, middle class consumers are important as they can be a major contributor to economic development through spending and future human capital (as they often spend on education). This in turn will help transition countries up the value added chain and in some cases influence domestic policy. Government revenues in developing countries will benefit from a new class of consumers who have moved from the informal to the formal economy and contribute to taxation. An increase in the middle class, therefore, can have a direct reinforcing effect on economic growth, creating a virtuous circle.
Becoming acquainted with these new middle classes in emerging markets

After assessing market potential and choosing potential target regions, countries, and/or cities with promising macroeconomic figures, a company’s attention should focus more intently on consumers in those markets. Who are they, exactly? Not just their disposable income now and in 5 years, or their life expectancy—that’s all already been considered, as discussed above—but their households, lifestyles and mind-sets.

Are they typical nuclear families with father, mother, children and detached house, as is more familiar in the UK or USA? Or are they large, single-income households whose main shopper is penny-pinching and sceptical of new products? Are they savvy consumers who expect quality and convenience? Or are they new consumers who are still figuring out how to deal with all the choices in their new, local supermarket?

The answers to these questions differ by market, so finding the one that best aligns with a company’s particular product or service is the next step in successful strategy planning for emerging markets. We now turn to understanding potential local consumers in order to identify the best market and to enhance relationships with consumers in that market even before starting to sell.

Tough but necessary: Predicting middle class needs and desires

When identifying new markets, understanding economic and population growth at the national level is a good place to start, but there is more to assessing market potential. The classic case is China: for years, GDP and
consumer spending grew, but GDP was fuelled by investment and production, not consumption. Even now, some analysts estimate that the ratio of consumption to GDP is 58% of what it should be. Does that mean that consumption is poised to spring ahead—or that the path to being a populous country with the consumption-driven economy of the USA is still long and fraught with complications for companies looking for an ‘easy fix’?

As mentioned in "The Rise of Emerging Markets” above, macroeconomic and demographic trends play a huge role, but so do consumer mind-sets and habits. For instance, consumption in China is not being restrained only by macro or government forces—it is being restrained by a strong cultural mentality in favour of savings, one that any company selling in China needs to confront. This mentality is rooted in a strong sense of personal insecurity, which does not encourage financial risk-taking. Even as the government attempts to encourage less personal saving, measuring market potential in China still needs a ‘savings mind-set’ dampening factor, at a minimum.

Furthermore, local consumer habits also need to be taken into account, as the following case study of a failed initial market entry strategy illustrates.

B&Q is a UK-based home improvement retailer who opened stores in China modelled closely on its successful ‘Do It Yourself’ (DIY) stores in the UK. After experiencing poor sales in China, it became apparent to B&Q that Chinese consumers were not particularly familiar with the DIY concept and actually preferred to hire migrant labourers to carry out the work on their behalf. This meant that stores did not need to be so large and product ranges could be reduced without much impact. More importantly, stores needed to be service-orientated with a focus on the finished look, rather than the tools required to create it. Many B&Q stores in China were subsequently closed down or sublet to prevent heavy losses and the business now trades from a fraction of its former selling space.

Current emerging market priorities include bringing family into the middle class through education

Thus, in conjunction with growth, consumer attitudes and habits must be brought into any market assessment equation. As noted above, for China, but true in emerging markets beyond BRIC as well, financial priorities in emerging markets include some household-level expenditures that are not nearly as salient for developed market consumers. In particular, middle class
households in emerging markets are twice as likely to report that spending on education for household members is one of their top five financial priorities (30% vs. 16%). Emerging middle classes in Indonesia, Mexico, and Colombia are especially likely to prioritise education (38%—44%). (Please see Endnote 1 for information about survey sources.)

In fact, education takes priority over discretionary consumer goods purchases in many emerging markets beyond BRIC. Electronics are seen as more deserving targets of household spending in the BRIC countries (and in Turkey) than education. Meanwhile, education trumps electronics in Indonesia, Thailand, Colombia, and Mexico. However, certain consumer goods and services, such as apparel, are a comparable draw to education in many emerging markets, except Indonesia, according to our survey results.

Spending priorities in emerging markets also more focused on the home

In addition, the middle classes in emerging markets are placing a priority on future spending on the home, in comparison to developed markets, where middle class consumers place more emphasis on holidays, leisure, travel and dining out. The specifics of this home focus vary from market to market, from home purchasing to home renovation to home décor and so on. However, there
is a strong preference for materially improving the home before spending on other, more ephemeral leisure categories.

This means that middle class consumers in emerging markets beyond BRIC are grappling with spending and purchase trade-offs that do not much resemble the ones being considered by consumers in developed markets or even BRIC. A market entry strategy and marketing plan need to recognise and incorporate those differing priorities.

**Middle Class Financial Prioritisation of Home Versus Away From Home Goods and Services**

[Graph showing percentage of respondents ranking different categories as household financial priorities.]

**Source:** Euromonitor International consumer survey; Middle Class Home 2013

**Note:** Showing per cent of respondents who ranked each category as one of their household’s top five financial priorities in the next 12 months (2013-2014). ‘Home’ is an aggregate measure that includes noting any of the following as a top five spending priority in the next 12 months: home décor or furniture, home renovation, home repair, purchasing a home for the first time, purchasing an additional home, professional/paid help around the house, cable/Internet package, new kitchen cookware or gadgets, consumer appliances (repair/replace or new/upgrade).

**Opportunities around the home abound with the younger population**

Now that we know this home bias exists, the next logical question is why: why is there a strong emerging market middle class focus on the home? As noted above, the average consumer in an emerging market is younger, on average, than his/her developed market counterpart. A younger population means more major life events as individuals go through the rites of passage of early and middle adulthood, such as moving out of the family’s house for the first time...
and having children of one’s own. It also means graduating from university, getting married and moving house for better jobs or children’s education.

According to Euromonitor’s Middle Class Home survey, respondents in emerging countries report more major life events in the last five years, including marriages, moving out of parents’ house, having a child and graduation from university. In particular, almost twice as many respondents in emerging countries (20%) than developed countries (12%) report having had a child in the past five years, reflecting emerging markets’ younger average age as well as their higher birth rates (as discussed in ‘Population Matters’ above).

### Occasion-based marketing can provide a foothold for your product or service

What do these life events mean for consumer goods and services companies? They are indicators of new needs (eg, setting up house, preparing for a baby’s arrival) and predictors of more discretionary income coming into play as graduates start paid work. In addition, they are typically perceived as special occasions, and thus opportunities for gift giving. Even in cultures where splurging on oneself is not that ingrained (yet—more below on consumer mind-set maturation), giving gifts is. As such, occasion-based marketing...
around gifts can be a good entry point into economies where households are moving from subsistence to status symbols.

**Early imprinting may also mean lifelong loyalty**

In addition to opening up a world full of gift-giving occasions, the earlier in age that companies can attract consumers to their brand and their products, the more likely they are to create loyal customers for life. Furthermore, as mentioned above, companies who attract younger consumers can more easily create opportunities to move them up the value chain.

In emerging markets, such early imprinting does not have to mean marketing to tweens, as it often does in developed markets (that is another paper entirely). Instead, as discussed above, emerging markets skew young naturally—there are almost as many 15- to 24-year olds in Indonesia or in Eastern Europe as there are in the entire USA. Plus, emerging markets are seeing rising life expectancy. Together, these factors imply sizeable potential returns for companies who invest in creating loyal customers now. To help understand more about what would make emerging market middle class consumers loyal to a company’s brand; we discuss the meaning of brands in more detail in ‘Marketing to the Middle Classes’ below.

**Life-stage cross-cuts consumer sophistication in emerging markets**

Our survey results show the younger respondents in emerging markets are leaping ahead of their elders, even within the middle class. These young people are embracing the variety and novelty of products and brands with the fervour and impulsiveness common to youth everywhere, and their desire to purchase is driving most planned increases to overall spending in emerging markets.

While not unique to the emerging markets beyond BRIC, the millennial generation’s consumer values and spending preferences are worth exploring in more detail, given that these are the most promising consumers now and potentially in the future, as they age—recall the purchasing power of the Baby Boomers through their young, middle, and now late adult years in developed markets.

More middle class consumers in all countries surveyed report a preference for spending over saving in their youth, especially in emerging markets. Furthermore, younger consumers are more likely to make “spur of the moment”
impulse purchases and feel deserving of their purchases than older consumers. The millennial generation may be counted on to spend on more discretionary purchases such as apparel and electronics now, as well as spend more on their new family and household needs as noted above.

**Price versus Indulgence In Emerging Markets**

![Bar chart showing the percentage of respondents who 'agreed' or 'strongly agreed' with each statement.]

Source: Euromonitor International consumer survey; Middle Class Home 2013

*Note: Showing per cent of respondents who ‘agreed’ or ‘strongly agreed’ with each statement.*

**Maturation of ‘consumer’ mind-sets**

Of course, as markets develop, so does the level of consumer savvy and product discernment among the population. The relationship of consumers to brands varies within a market over time, not only between markets. From 1) survival to 2) quality to 3) convenience to 4) customisation, consumers’ desires shift as their prosperity increases and their exposure to consumer goods grows (Martinez and Haddock 2007). (For more on the importance of quality to the middle classes in emerging markets beyond BRIC, please see ‘Marketing to the Middle Classes’ below.) As consumers mature into wielders of brands, emerging markets will come to resemble developed markets in more respects, but likely not all. Even now in emerging markets, there are savvy consumers among the established middle class, and many more neophyte consumers among the newly-minted middle class.
Moving into middle class incomes—and beliefs?

This duality of new and established middle class consumers in any given emerging market was evidenced in our Middle Class Home survey, where 63% of emerging market respondents saw their home as a permanent place to live and as more than just a place to sleep. We see these as the ones who have “made it” safely into the middle class, financial security, and often home ownership. Meanwhile, 19% see their home simply as a place to sleep—a temporary or permanent resting place on the ladder of success. Within our emerging middle class, let us look more deeply into middle class mind-sets in the heart of personal consumption: the home.

As in developed markets, home is a private space for self and family (79%) and is not a burden or source of dissatisfaction (7%). Household differences emerge when we look at who sees their home as a social hub and place to entertain guests—respondents are split about 50-50 between those who strongly feel their home is a gathering place and those who do not (except in Russia, where most clearly do not).

Emerging Market Consumers’ Perceptions of Home

Source: Euromonitor International consumer survey; Middle Class Home 2013
Note: Showing per cent of respondents who said that each phrase was very or ‘exactly like their home’ (5 or 6 on 6 point scale).
MARKETING TO THE MIDDLE CLASSES

Learn the local language: spoken words and unspoken rules

For most respondents, home is a private space, one they will curate to reflect their personal tastes even if those choices mean pleasing one’s parents or impressing the neighbours, rather than showing off an individualised aesthetic vision. As part of this personal decoration, at least half of the middle classes in emerging markets will be choosing a home and furnishing it with the expectation that it will be used as a social hub.

When these consumers are entertaining, what matters most—the company, the food, the drink, the conversation? Or the furniture, the kitchen appliances, the TV, or the spotless floors and surfaces? The answers to these questions will help companies assess the potential for particular products or services in these markets.

One way to find the answer is to look at where consumers judge others the most. Middle class respondents in all markets are in general agreement that cleanliness and home maintenance matter—around seven in ten in each market agree that you can tell a lot about a person from how well-kept their home is. Good news for home care and cleaning product and service companies, as well as home furnishings companies.

Beyond cleanliness, home goods such as consumer appliances matter to some middle class respondents in emerging markets more than others: particularly in Asia Pacific, where 48% believe you can tell a lot about a person from the appliances in their home, and less so in Latin America (29%). So for consumer appliances manufacturers, the symbolism associated with appliances is much more salient when marketing to middle class consumers in Asia than in Latin America.
Is it as simple as establishing a strong brand?

To accommodate this middle class concern for having appliances that meet or exceed the social judgments of their peers, the solution for consumer appliance manufacturers may be to focus on upgrade features and higher-end models in Asia. Typically, such features exist under the umbrella of a luxury brand that consumers can trust for quality. So how important is brand in an emerging status culture, exactly?

When asked about the importance of branded goods, point blank, middle class consumers in emerging markets do not appear to be particularly brand conscious. Forty to fifty per cent say they prefer branded goods to cheaper alternatives—the same as in developed markets. Yet when status conceptions are explored further, consumers in emerging markets in Asia Pacific appear to be much more concerned about maintaining status and appearance relative to their peers than consumers in developed markets or other emerging markets.

For instance, 45% of middle class survey respondents in Thailand and 56% in Indonesia say that it is important to them to maintain or exceed the standard of living level of their peers, compared to fewer than 25% in Brazil, Colombia, or Mexico. Similarly, Asian respondents are more likely to agree that their possessions should show others that they are successful, more than US consumers (30%), who are in turn ahead of Latin American and other developed markets.

Status-related Beliefs By Market

Source: Euromonitor International consumer survey; Middle Class Home 2013
Note: Showing per cent of respondents who ‘agreed’ or ‘strongly agreed’ with each statement.
Evidence thus mounts that Asian emerging middle class consumers are most interested in personal and household success, measured against that of their peers. This attention to relative standard of living sets up a potential arms race in the coming years, which is promising for consumer goods and leisure services businesses. Still, the question remains—what role does brand play in middle class status assessments and purchase decision making in emerging markets?

**A symbolic interpretation of brand**

One way of answering this question is to explore the meanings that Asian consumers ‘read’ when they look at the appliances in another’s home. The finish, the brand name, the degree of electronic sophistication, the size—which of these are the salient characteristics with specific local meaning? Or are these consumers simply noting the sheer fact of ownership of the appliance when measuring themselves against their peers’ standard of living?

Euromonitor’s Middle Class Home survey results show that, across a range of products, emerging market consumers are more focused on the durability of the product (58%), including warranties (41%), brand (42%) and appearance of the product (38%) than consumers in developed markets.

Drilling down into what brand signals, the middle class emphasis on product reliability and, relatedly, product quality remains robust. Emerging market middle class consumers are much more likely to want to buy brands that come from trusted manufacturers and have a strong reputation for quality, including good design. In addition, they seek out brands with a reputation for reliable customer service—more so even than a warranty, in markets such as Turkey.
Looking at consumer appliances in particular, another product feature distinguishes middle class consumers in emerging markets from their developed market counterparts: sustainability.

**Good design as marker of durability—and sustainability**

In fact, the single most-desired feature of new appliances in emerging market middle class respondents may be one of the least visible, but the most long-lasting: energy-efficiency. In total 62% of emerging market consumers said energy-efficiency or eco-friendly features were a key appliance upgrade factor. In several markets beyond BRIC, this green-mindedness is even more widespread: nearly eight in 10 Thai and Turkish middle class consumers want such features in their appliances, as do seven in 10 Indonesians.

In particular, Asian middle class consumers in Indonesia and Thailand much prefer energy-efficient appliances (60%+), while Latin American middle class consumers in Colombia and Mexico are twice as likely as those in any other region to look for appliances that monitor and minimise their own energy use. In Turkey, meanwhile, consumers are hungry for any and all energy- and environmentally-friendly appliance features tested.
Looking beyond appliances to a representative set of home products, from cookware to laptop computers, we see that over half of middle class consumers in emerging markets who consider ‘green’ features place substantial emphasis on sustainability during manufacture and during use (60%). They value buying products that were manufactured with little impact on the environment and, to a lesser extent, whose use will have little impact on the environment (27%), as well as themselves and their family (39%), when the product is used.

In addition to these somewhat intangible consequences is one quite tangible consideration: saving money over the life of the product. Emerging market consumers who look for “green” product features often do so to help save money for their household finances (40% vs. 28% in developed markets). Purchase of energy-efficient appliances is a hedge against rising energy prices, which are flourishing in many emerging markets.

Making the connection: emotional and rational?

At this point in our strategic planning, we have helped companies measure how much latent demand for their products or services exists, as well as helped them discover potential features for their product development and marketing teams to leverage when entering new emerging markets beyond BRIC. Assuming an appropriate product has been developed and distribution logistics figured out, the final step is to decide how to best reach and inspire consumers.

In emerging markets, consumers report wanting to plan all purchases well in advance and they spend more time deciding to buy a product than consumers in developed markets (usually at least 1-2 weeks). They also seek out discounted products. Often purchases are not made lightly—they are investments of time and money. However, this is not to say that purchases are all made rationally—as noted above, middle class emerging market consumers are also more likely to say they buy products because they deserve it and to be interested in keeping up with their peers, so emotional components matter too.

Crucially, social components are also key in successful marketing campaigns in emerging markets. If companies can get people using and talking about a product or service, they will have succeeded in harnessing the most powerful influence on consumer decision-making in emerging markets: friends and family recommendations and experience. These campaigns can leverage free
samples to expose consumers to new products, such as Viva Cosmetics is doing in Indonesia as it expands its product lines and Osotspa has done somewhat successfully with its Hang energy drinks in Thailand. Alternatively, marketing campaigns can begin with the creation of a new online community, as L’Oreal created for women in China. Some companies’ entire sales and distribution models take advantage of such trusted peer-to-peer connections, as direct sellers have done in many emerging markets, including Omnilife in Mexico.

Targeting the middle classes beyond BRIC
From determining product fit in new emerging markets to devising a marketing campaign that incorporates local values and knowledge, the specifics of a successful market entry strategy are not easy to determine without research and local experts, or better yet, local partners. Thankfully, the necessary information is out there, via a thorough investigation of 1) local consumers’ needs and desires, 2) the local spoken and unspoken rules around personal values and product features, and 3) purchase influencers. Before you get started building your strategy to woo the middle class beyond BRIC, a few final factors to consider...
WHAT ARE THE OTHER FACTORS TO CONSIDER?

Although it is a major factor to seek out, a buoyant consumer market with a dynamic middle class is not the only element to consider when entering new emerging markets. There are a myriad of interwoven factors which are critical to success.

Factors Affecting Market Selection

Access
Thinking about access, the nature of the retail landscape is crucial. An economy where the traditional retail sector dominates, although not impossible to serve, does require specific strategies. It is not easy supplying hundreds of thousands of “mom and pop” stores. The retail landscape can vary significantly from country to country, for instance in Thailand the top five retailing operations account for 28% of retail sales, in Vietnam the figure is just 7%.
Inadequate infrastructure adds significant costs to doing business in many emerging markets and there are vast differences amongst them in terms of the quality of their roads, rail networks, power supplies and ports and airports. Emerging markets in Eastern Europe dominate the bottom of the World Economic Forum’s Quality of Road Infrastructure Rankings and in Africa online retailing is hampered by a lack of formal postal addresses.

**Business environment**

Finally, if we look at the business environment, regulations, corruption and general difficulties around doing business can cause huge costs in terms of money and time. In the World Bank’s Ease of Doing Business rankings, Georgia tops the emerging economies and comes an impressive ninth globally—which even places it above Australia. At the other end of the rankings comes the Central African Republic (CAR)—the most difficult country to do business in a ranking of 185 economies. In practical terms this means that it takes seven days to start a business in Georgia, compared to 170 in CAR. The total tax rate in Georgia is 16.5% of profits, in CAR it is 65.2%.
CONCLUSION

Where is the middle class potential?
The rise of emerging markets has been the defining feature of the global economy this century and the rise of the middle classes in these countries has transformed consumer markets and will continue to do so. Many emerging markets have expanding economies and booming youth populations on their side, and these factors have translated to strong growth in consumer expenditure.

The middle class, with its willingness and financial wherewithal to spend, is a key consumer segment for many companies. This group, many of whose members have the ability to spend for the first time in their lives, offers huge opportunities for companies who are able to capitalise on its emergence.

However, capitalising on the growth of the emerging middle classes requires knowledge—knowledge of economic, demographic, spending and income trends, but also, importantly, knowledge of their households, lifestyles, habits and mind-sets. This knowledge must be in-depth: there is no such thing as an average middle class consumer in emerging markets. Each country has its own distinct beliefs, tastes and desires—as might be expected from such a diverse group of economies. There are no shortcuts in deciding how to best reach and inspire consumers. And other factors should also come into play—the middle class cannot be considered in isolation—market access and a friendly business environment are important dynamics.

Strategies for success
To conclude this discussion of theory and concrete market realities, we leave you with seven real-world strategies for success to reach the emerging middle classes beyond BRIC.
First: Knowledge
Gaining a deep understanding of the market is crucial—this includes competitors, the operating environment, consumers and suppliers. Companies who are considering entering a new market for the first time or who are planning to enlarge their footprint could do worse than learning from others.

Second: Build well-designed and locally-tailored products
Offer appropriate products, not cheap products. It is not safe to assume that consumers in emerging markets will like the taste, the look or the functionality of your existing product portfolio. Samsung for instance has a “Built for Africa” range of products including a smartphone with dual-sim capability so that users can switch networks in order to find the best signal. Mondelez International has tailored its Oreo product offerings to suit local markets by introducing new flavours to suit its consumers’ taste buds; eg, green tea ice cream flavour and mango and orange flavour in the Chinese market. It is these tactics that have helped Oreo to become the brand leader in sweet biscuits in China, accounting for 15.4% of a US$3.6 billion market in 2012.

Third: Do not be afraid to take on distribution logistics yourself
To overcome the challenge of distribution, many companies incorporate their own logistics. PZ Cussons, a UK-based consumer goods company with a strong presence in Africa, attributes some of its success to its extensive network of depots and factories. Unilever Indonesia has a programme whereby it provides rural family planning workers with a second income by linking them up with the distributors of Unilever brands. While Unilever benefits from better distribution of its brands among rural households, the added incentive of being able to buy products has, according to Unilever, attracted more women to attend family-planning talks. Another example is Nestlé’s Amazon barge in Brazil—a boat with 100-square metres of supermarket space which travels to 18 small cities and 800,000 potential consumers. As well as supplying consumers, the barge also supplies micro-distributors in the area.

Fourth: Think beyond cash and bank cards
Think carefully about payment methods—many consumers are unbanked. For instance, successful Internet retailers such as Jumia in Nigeria offer the option to pay cash on delivery. Big retailers across emerging markets offer buyers loans in-store, along with conditions that help train consumers to repay on time and in full. One example of this is Éxito, the market-leading supermarket in Colombia, which offers store cards to its shoppers. The Éxito Origen credit card can be obtained by cardholders without a banking history or formal income.
**Fifth:**
**Price carefully, adjusting unit sizes as needed**
A carefully thought out pricing strategy is a must, successful companies offer accessible routes to purchasing decisions to attract rural consumers, the bottom of the pyramid, the aspirational middle class and high income consumers. Small sizes appeal in particular to rural consumers, who have limited purchasing power and might be making daily purchasing decisions and/or using the category for the first time. They also appeal to kiosk-owners and small retailers who operate with low working capital. Frugal innovation, or offering pared-down products, has also been a successful strategy for many. Paring down does not mean reducing the quality of the product, rather it means removing non-essential, often costly, functionality.

**Sixth:**
**Market your product as well as the associated lifestyle**
Branding and advertising are key and often have to go hand-in-hand with education because knowledge of an entire category may be negligible. Unilever, through its Lifebuoy soap brand has been able to harness this by sponsoring a hand-washing campaign across emerging markets, including India. The campaign seeks to reach one billion people across Africa, Asia and Latin America by 2015.

**Seventh:**
**Find the right local partner**
Market entry strategy is crucial and companies should think carefully about working with local partners. For instance, such local partnerships are required for foreign businesses entering Indonesia, but are not easy to exit once established. Even if precautions are taken when writing the contract, Indonesian partners can impact the costs and ability of foreign companies to dissolve unsuccessful partnership agreements. When partnerships are successful, the local agent is able to navigate both the formal and informal systems governing business in that market and to do so much more efficiently than would be possible otherwise.
All consumer survey results cited in the paper are drawn from Euromonitor International’s Middle Class Home survey of 6,600 online consumers ranging in age from 15 to 65+ and living in 16 major markets in 2013: Australia, Brazil, China, Colombia, France, Germany, India, Indonesia, Japan, Mexico, Russia, Spain, Thailand, Turkey, United Kingdom, and the USA.
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Eileen manages the syndicated Passport: Survey system, overseeing a multinational team responsible for all aspects of consumer survey design, implementation, and analysis for Euromonitor International. Eileen joined the company in 2011 to help develop and launch this new Survey system, which now canvasses over 15 countries and tens of thousands of consumers each year. Survey questionnaires and subsequent data analysis explore many areas of consumer life (e.g., purchase decision-making; “eco-green” attitudes; meal preparation habits) and a variety of consumer segments (e.g., baby boomers; mothers; the middle class), at both the global and country levels.

Eileen has almost 10 years of research and teaching experience relating to consumer preferences, cross-cultural studies, sociology, public policy, and audience engagement, deploying both qualitative and quantitative methods. She has a Master’s Degree in Sociology from the University of Chicago and a Bachelor’s Degree in two majors, Sociology and Mathematics, from Williams College.
Sarah heads the Passport: Countries & Consumers team, managing a team of economic and consumer trends analysts based around the world. In her role, Sarah focuses on translating economic and consumer trends information into useful insight and advises client companies on how these trends have a real-life impact on their business. Sarah was instrumental in designing our market-leading programme of income research and has played a lead role in developing Euromonitor International’s macroeconomic and consumer trend content – with a special interest in issues around sustainability, emerging markets and the post-recessionary consumer landscape.

Sarah has an undergraduate degree in European Studies and a postgraduate qualification in International Commerce. She joined Euromonitor International in 1999 as a Project Coordinator and has more than fourteen years’ experience of socio-economic research.
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