

# MARKETING CHALLENGES FACED BY SOUTH AFRICAN BANKS EXPANDING INTO OTHER EMERGING MARKETS

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The combined output of emerging markets accounts for more than half of the Gross Domestic Product (GDP) of the world economy (Woodall 2006:4). South African banks are aggressively expanding their operations into other emerging markets. The banks are posting ever-growing profits (Wright 2003:Internet), but also face various marketing challenges in these markets. Current literature does not provide adequate insight into these challenges and suitable marketing strategies to implement when expanding into emerging markets. The purpose of this paper is to investigate the marketing challenges faced by South African banks operating in other emerging markets, and the marketing strategies they implement to meet these challenges. An exploratory, descriptive and contextual research design was followed. In-depth interviews with top South African bank executives were conducted. The Morse and Field approach was used to analyse opinions of participants. Key marketing challenges include the lack of local skilled labour and language differences, amongst others. The paper furthermore reports on marketing strategies that are implemented by enterprising South African banks to cope successfully with challenges in other emerging markets.

*Key phrases: International marketing, emerging markets, South Africa, banking industry, marketing challenges, marketing strategies*

## INTRODUCTION

Globalisation is driven by a range of factors that include the rapid development of enabling communication technologies, the existence and expansion of emerging markets, the need for businesses to decrease their costs and increase their efficiency, and the declining population numbers of developed nations. All these factors are forcing businesses to expand into new and unfamiliar markets. Globalisation is also making a strong impact on the financial services industry as banks expand into emerging markets in search of new areas of growth (Stoklosa & Chetty 2007:25).

South African banks are participating in these new manifestations of global business by acting as pioneers on the African continent and in other emerging markets. Some of these new markets are already returning substantial profits on business investment and activity, and this state of affairs is expected to continue into the future (Wright 2003:Internet).

Such endeavours are, nevertheless, accompanied by a host of challenges. Although businesses implement a range of strategies to meet these challenges, gaps still exist in understanding the exact nature of the marketing challenges that face services organisations that operate in emerging markets, and understanding the strategies that businesses are currently implementing to overcome these challenges.

The purpose of this paper is to explore the marketing challenges faced by South African banks in emerging markets, and the consequent strategies that have been implemented in order to overcome these challenges.

## **LITERATURE BACKGROUND**

### **The rise of emerging markets**

Businesses are exploring emerging markets because of declining market growth in developed markets (Koudal & Engel 2007:38; Muhlbacher, Leihls & Dahringer 2006:28; Czinkota 1993:571). Markets such as those of China, India, Eastern Europe, South America and some parts of Africa are currently regarded as the most promising and profitable business locations in the world (Luo & Tung 2007:485-486; Koudal & Engel 2007:37).

Businesses are motivated by a desire to share in the current and potential growth that these emerging markets represent. According to the World Investment Report 2005 (United Nations 2005:34), the International Monetary Fund (IMF) states that economies such as China, South Korea, Brazil, Mexico, Russia and South Africa account for 48% of the global GDP, and 69% of GDP growth in 2006. The combined collective GDP of these markets is equivalent to almost half that of the United States (Hemerling 2007:19).

The average economic growth rate for developed markets in 2005 was 2.7%. According to the International Monetary Fund (IMF), this figure was outstripped by a 6.8% growth rate in emerging markets in the same period (Woodall 2006:4). It is being predicted that traditional developed markets such as those of Western Europe and the United States will increase by a mere 2.2% in real GDP growth, while the emerging markets of Eastern Europe, East Asia and Africa are expected to grow at a rate of more than 6% (Young 2007:Internet). These markets are not merely new nodes of growth. They are critical to the survival of business in the developed world (Muhlbacher et al 2006:28).

### **An overview of the South African banking industry**

South Africa was excluded from international markets for many years in the course of the South African government's rigid adherence to the policy of apartheid. But the confidence of the business world in the South African banking sector is visible (Ford, Moynn & Thompson 2006:1-2). The confidence that foreign bankers have in the South African banking industry is apparent from the presence of the 11 Southern African banks that operate in South Africa. Almost all Southern African Development

Community (SADC) member states are represented among these banks, including Zimbabwe, which operates four banks in South Africa (Ford et al 2006:1-2). Citibank began to expand its operations in South Africa in 2001, and continued to invest aggressively in investment banking business in 2002 (Wright 2003:Internet).

The four largest South African banks in South Africa posted combined profits of more than R1.2 billion in 2002 from their African operations. This figure is an increase from the R800 m of profits that were posted in 2001 (Wright 2003:Internet). The Standard Bank of South Africa has been in the vanguard of this expansion. According to Gunnion (2007:1-2), the Standard Bank has bought the Turkish Investment Bank – an indication of the seriousness of the Bank's desire to expand into emerging markets. Standard Bank has also indicated its intention to actively expand its operations into Kenya by acquiring a stake in the National Bank of Kenya (Mogusu 2006:1).

Other South African banks are following the example of the Standard Bank by also expanding into foreign emerging markets (Business Africa 2005:1-3), Absa Bank now operates in Angola, Mozambique, Tanzania, Zambia and Zimbabwe. Barclays Bank, which owns ABSA Bank, plans to sell all its Southern African banking operations to ABSA Bank (Wright 2003:Internet).

Challenges faced by businesses operating in emerging markets and subsequent marketing strategies to deal with these challenges.

Four major challenges in emerging markets can be identified in the literature and include the existence of dual economies, underdeveloped physical infrastructure, the shortage of market and consumer data and the lack of adequate legal infrastructure in these markets.

#### *The existence of a dual economy in emerging markets*

Businesses that operate in emerging markets face the challenges presented by the existence of a dual economy in the economic structure of the countries in which they operate. Businesses are faced with a situation in which consumers at the lower end of the market cannot afford the product or service that is being offered to the higher end of the market (Nakata & Sivakumar 1997:15). A number of strategies have been recommended to meet this challenge. Prahalad (2002:48), for example, focuses on the need for businesses to change their mindset about and attitudes towards the lower end of the market, while Batra (1997:95) and Beshouri (2006:64-65) warn that only those businesses that have come to appreciate and accept that business

success can only be achieved by capitalising on the buying power of the lower end of the market, will thrive.

Michael (1995:1-3) and Burgess and Bothma (2007:41-42) believe that businesses will only succeed in servicing the lower end of the market when they set prices that enable their clients to feel that the price is justified by some form of value. Batra (1997:95) and Hamm, Kripalani, Einhorn and Reinhardt (2004:Internet) recommend that businesses operating in emerging markets adjust product formulations and packaging in order to decrease prices. This immediately makes the product more affordable at the bottom end of the market.

Another strategic approach may be described as a grassroots approach to marketing (Prahalad 2002:48). This approach regards involvement on the part of the local community as a key resource in ensuring the successful delivery of a product. This kind of business approach also focuses on reducing costs and on employing members of a local community to provide the distribution infrastructure for goods and services. By using such methods, the problem of adequate infrastructure in rural communities is overcome, and the innumerable buyers at the lower end of the market are empowered for the first time to gain access to products and services that had been previously unavailable to them (Beshouri 2006:62).

#### *The underdevelopment of the physical infrastructure in emerging markets*

Businesses also have to deal with the consequences of having to function with an underdeveloped infrastructure in non-urban areas (Philemon 2007:1-2; Gouvea 2004:180) as evident in emerging markets. In these market conditions, it becomes a major challenge for businesses to deliver products and services on time and in perfect condition because an underdeveloped physical infrastructure (which includes inadequate or non-existent roads, bridges and bandwidth infrastructure) hampers the normal processes of efficient and cost-effective delivery (Sheth & Sharma 2005:614; Cateora & Graham 2005:250-251; Khanna, Palepu & Sinha 2005:63; Appiah-Adu 1998:129). Cateora (1996:253) warns businesses that do not have access to infrastructure will be subject to increased costs, and that these businesses will be hampered in their ability to reach certain vital segments of their projected market. Sheth and Sharma (2005:614-615) state that an underdeveloped or inadequate infrastructure will impact negatively on any business's ability to market products and services effectively to a segment of the market.

In order to meet this challenge, businesses that operate in emerging markets are forced to construct and implement the components of a modern marketing system (Prahalad 2002:54; Judith 1998:16-18; Batra 1997:95; Cateora 1996:236;). In such

cases, businesses are encouraged to invest in their own infrastructure. The second strategic approach is for businesses to collaborate with the government of a country in which they are operating and encourage them to invest in infrastructure (Ramachandran, Mukherji & Sud 2006:292-293); (Judith 1998:16-18).

#### *The shortage of market and consumer data in emerging markets*

Cateora (1996:295) warns international marketers that they should not assume that consumer data is as freely available in emerging markets as it is in their home country. Craig and Douglas (2001:80) refer to this issue as the heterogeneous complexity of an emerging market. Businesses often have to cope with the challenge of a shortage or absence of marketing and consumer data when they begin to operate in emerging markets (Bartlam 2006:37; Philips, Doole & Lowe 1994:150). This situation emanates from a shortage in local infrastructure to source local data (Khanna et al 2005:63; Walters & Samiee 2003:105). This situation is frequently aggravated because governments deliberately withhold the necessary information from businesses in order to maintain control over local industries (Appiah-Adu 1998:118). Banks are often the businesses that suffer most from the shortage or absence of market data and information in emerging markets. Because of the underdeveloped nature of financial and capital markets in emerging markets, banks face the challenge of a shortage of credit-rating agencies, investment analysts, merchant bankers and venture capital (Khanna *et al.* 2005:63). It is difficult for banks to compare the nature of businesses operating in these markets. This creates serious difficulties for commercial banks in particular as they attempt to value the business market (Mobius 1996:1-2).

In order for businesses to operate in countries where there is a lack of adequate market and consumer data, a number of authors have advised businesses to invest in and conduct their own primary market research (Craig & Douglas 2001:80-81; Judith 1998:16; Austin 1990:87-89). Doole and Lowe (1999:143) and Walters and Samiee (2003:105) advise businesses that if they wish to minimise the costs and effort incurred by primary market research, it is advantageous for two or more businesses to pool their resources and to undertake joint projects in market research. This kind of approach utilises networking and the advantages of forming consortia.

#### *The lack of an adequate legal infrastructure in emerging markets*

Doole and Lowe (1999:16-17) indicate that there are two reasons why global businesses should pay careful attention to local legal factors in emerging markets. The first reason is that a thorough familiarity with local laws and the procedures that govern exports and imports to and from an emerging market helps the business to

avoid the unnecessary costs that are associated with non-compliance with the laws of the country concerned. The second reason is that it is the duty of an international marketer to ensure that his or her business abides by these laws.

The United Nations (1999:345) refers to the legal infrastructure of a country as the laws and regulations that regulate the financial sector, the country's legal system, its provisions for contract law, and the way in which it protects product and service patents. It is clear from this definition that all businesses, regardless of whether they operate in emerging markets or not, operate according to the rules, laws, precedents and regulations of an established legal system. Hitt, Li and Worthington (2005:354) and Burgess and Bothma (2007:214) characterise inefficient legal provisions and inadequate intellectual property rights as significant problems for foreign businesses. They point out that this aspect of the business environment makes it difficult for businesses to adapt to the emerging market's legal environment. In these environments businesses have to cope with the risks and consequences of counterfeiting (Cateora & Graham 2005:188; Green & Smith 2002:93) and the infringement of intellectual property rights (Cateora & Graham 2005:188) in emerging markets. These difficulties are made worse by the fact that the local economy benefits enormously from such practices (Green & Smith 2002:93-94).

In order to meet this particular challenge, businesses are encouraged to formalise their counterfeiting policies and to share their experiences in this regard with other businesses (Vithlani 1998:47). Businesses can also play an active role in alerting their clients to the realities of counterfeiting and piracy (Green & Smith 2002:90-93; Harvey 1993:57-58). Another strategy referred to as a prosecution strategy is where a business builds procedures, models and plans in order to fully protect all trademarks (Green & Smith 2002:92-93; Harvey & Lucas 1996:77-76; Schultz & Saporito 1996:18-21; Bush, Bloch & Dawson 1989:63).

## **PROBLEM STATEMENT, RESEARCH AIMS AND RESEARCH QUESTIONS**

Emerging markets are driving global growth and are making an enormous impact on the inflation rate, the interest rates and the wages and profits of developed countries. As more and more emerging markets become integrated into the global economy and their per capita income begins to catch up with that of developed countries, they will also be in a position to give the biggest boost to the world economy since the advent of the Industrial Revolution (Woodall 2006:4).

It is not advisable for businesses to underestimate the value that these markets will unlock in the future. Neither is it possible to underestimate the marketing challenges

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they will cope with while operating in these markets. South African banks are expanding aggressively into a number of emerging markets. Even so, the researchers could trace no direct references in the current literature about emerging markets to the problems of understanding the marketing challenges that these banks are compelled to face while they operate in such markets.

The literature does indeed contain references to the marketing challenges that businesses in such markets face when they operate in the manufacturing industry. This indicates a significant gap in the current understanding, not only of the marketing challenges experienced by service organisations, but also the understanding of the strategies that these businesses will be compelled to implement as they attempt to grapple with existing marketing challenges in emerging markets. This paper aims to make a contribution to existing literature about the operation of a services industry organisation in emerging markets. The researchers hope that it will be able to serve as a platform for the launching of future research in this field.

The following research aim has been formulated for this paper:

To determine the marketing challenges faced by South African banks operating in emerging markets and the consequent marketing strategies that need to be implemented in order to overcome them.

Based on the above research aim and the literature review conducted for the study, the following research questions have been formulated for this paper:

*Research question 1a: What are the marketing challenges that are created by the existence of a dual economy in emerging markets?*

*Research question 1b: What strategies do banks need to implement in order to operate successfully in emerging markets where a dual economy exists?*

*Research question 2a: What are the marketing challenges created by the underdevelopment of the physical infrastructure in emerging markets?*

*Research question 2b: What marketing strategies should be implemented by banks in order to cope with the existence of the underdeveloped physical infrastructure in emerging markets?*

*Research question 3a: What marketing challenges are created by the lack of an adequate legal infrastructure in emerging markets?*

*Research question 3b: What marketing strategies need to be implemented in order to overcome the lack of an adequate legal infrastructure in emerging markets?*

*Research question 4a: What marketing challenges are created by the shortage of market and consumer data in emerging markets?*

*Research question 4b: What marketing strategies need to be implemented in order to overcome the challenges associated with the shortage of market and consumer data in emerging markets?*

*Research question 5: What other marketing challenges do South African banks have to cope with when they face the necessity of operating in emerging markets?*

## **METHOD**

This paper is informed by an exploratory descriptive and contextual research design. The researchers conducted an extensive literature review focussing on the South African banking industry and the marketing challenges and consequent strategies that have been implemented by businesses operating in other emerging markets.

The empirical part to this paper involved a qualitative research methodology which permitted the researchers to collect the opinions of a selection of South African banking executives and to analyse their understanding of how and why they were meeting the marketing challenges that faced their banks as they undertook a variety of different operations in emerging markets. This qualitative research enabled the researchers to focus in detail on the various meanings and significance that emerged from these opinions.

The researchers undertook in-depth interviews with nine banking executives from four of South Africa's major banks, namely Absa Bank, FirstRand Bank, First National Bank and Standard Bank. The researchers chose a sample of executives by making use of judgment sampling. Sampling of this kind enables researchers to choose participants on the basis of discretion and personal judgment. The researchers selected the particular individuals who participated in the interviews because of the strategically important positions that they held in their organisations, and because of their specialised experience in specific fields.

All the data that was collected from participants was captured, coded and analysed by making use of the Morse and Field approach to data analysis. It is during the process of data analysis that a theory emerges from the data – provided that the researchers concerned have completely immerses themselves in the significance of the data that has been collected by using this method (Morse & Field 1995:125).



It is usually only at that stage that the researcher will be able to identify recurrent patterns by means of astute and probing questioning during the interviews. In the opinion of Morse and Field (1996:103-107), four cognitive processes appear to be integral to this method of data analysis. They are comprehending, synthesising (decontextualising), theorising and recontextualising. These four processes informed the entire process of data collection and analysis in the study.

## RESULTS

### Sample profile

All participants possessed a great deal of experience in banking and an extensive and personal knowledge of their bank's expansion plans into emerging markets, plans that were being implemented by the South African banks represented in the sample at the time of the research. The nine participants who were selected by the researcher were drawn from among the top management, the marketing directors and the business directors of their respective banks.

### Trustworthiness

For the purpose of this paper, Guba's (1981:77-79) model of trustworthiness was used in order to ensure an acceptable degree of rigour in the research process and the trustworthiness of the qualitative data. The researchers tested several aspects.

### Truth value (credibility)

Truth value (or credibility) indicates the degree of confidence that a researcher is justified in having about the truth of the findings. The degree of credibility of the findings is derived from the careful consideration of the research design, the informants themselves, and the context of the study (Guba 1981:77).

The researchers implemented several strategies to ensure the truth value or credibility of this study. In order to increase and prolong engagement with the responses of the participants, the researchers used a *dictaphone* to record each interview. The researchers conducted a *pilot study* amongst peers whom had extensive experience of strategic marketing problems in the financial services industry. This permitted the researchers to test the robustness of the questionnaire and its format before conducting the formal interviews on the actual participants. *Member checking* was used to continually test the researchers' data, analytical categories, interpretations and conclusions with informants who are already experts in the field of study and in the requirements of various research methodologies

(Lincoln & Guba 1985:236&314). *Reflectivity*, a rational assessment of the influence of the investigator's own background, perceptions and interests on the qualitative research process, was also conducted through the keeping of a field journal used to record feelings, thoughts and ideas after each interview (Ruby 1980:168). In order to increase the *dependability* of the research findings, the data coding that was performed for the study was checked by an experienced expert in methods of qualitative research. The researchers and the expert found themselves in agreement about the validity of the coding and the categorisation of the findings.

### **Confirmability (neutrality)**

In order to contribute towards the neutrality in this study, the services of an independent transcriber were used. The researchers' use of a field journal enabled the transcriber to check various details such as the timing of interviews and schedules.

### *Findings*

This section presents the findings in relation to each of the nine research questions formulated for the study. The findings address the key results, the relation of the results to extant theory and the interpretation of the results for each research question.

#### *Research question 1a: What are the marketing challenges that are created by the existence of a dual economy in emerging markets?*

The key result is that eight out of nine participants agreed that their respective banks are required to face the challenges of a dual economy when they operate in other emerging markets.

The clear agreement of the participants with this statement supports what was reported in the literature, where a large number of researchers noted the enormous disparity between the rich and the poor that is so prevalent in emerging markets. The consensus of opinion reported in the literature states that all businesses in the retail and manufacturing industries have to deal with this challenge.

These responses confirm that the existence of a dual economy in emerging markets may be regarded as a key challenge for South African banks that operate in emerging markets. They also confirm that South African banks (as service organisations) are required to cope with the same challenges that are generated by the dual economy as businesses that operate in the manufacturing or retail industries.

*Research question 1b: What strategies do banks need to implement in order to operate successfully in emerging markets where a dual economy exists?*

It is evident that South African banks first enter the market in order to position themselves to offer banking services to businesses, corporations, and to the public sector. After some time in the market, the bank may broaden its scope to offer the same services to both ends of the market (consumer and business). Banks offer specialised, tailor-made solutions that are more attractive and suited to the lower end of the market. Banks do not exclude or ignore the lower end of the market. They simply service this end of the market at a later stage in their expansion programme.

It was noted in the literature that banks do in fact offer specialised solutions that are more suited to the lower end of the market. These specialised solutions which are offered to the lower end of the market usually consist of cellphone banking and basic cheque or transactional services. The literature also reports a need for businesses to effect a change in the mindset of staff and employees before they can appreciate the importance of the lower end or base of the pyramid-shaped market. The findings in this study seem to contradict the findings in the literature, because all the participants recognised and acknowledged the importance of the lower end of the market and no change in mindset was needed to enable them. Only one participant noted that the bank actively pursues the kind of grassroots approach to marketing.

South African banks acknowledge the need to offer services and products to both ends of the dual economy. South African banks first enter an emerging market with the objective of providing services to the upper end of the business and corporate community, and once they have established themselves in this way, they expand their programme to offer their services to both ends of the dual economy. It could be argued that South African businesses have undergone a definite change in their mindset as far as the bottom end of the market is concerned, because they now regard the lower end of the market as a key source of growth for products and services, although these services are usually only developed once the bank or business has established itself at the top end of the dual economy of the market. This change in attitude could arguably be attributed to the successes that South African banks have in the emerging market sector.

*Research question 2a: What are the marketing challenges created by the underdevelopment of the physical infrastructure in emerging markets?*

All nine participants agreed that their respective banks have to cope with the challenges presented by an underdeveloped physical infrastructure when they operate in emerging markets.

The infrastructural challenges, such as the shortage or absence of roads, communication channels, and the other channels of communication and distribution that were uncovered in the literature, were confirmed by the responses of all participants who participated in the study. The poor conditions and maintenance of the physical infrastructure (where it exists at all) hamper swift and efficient travel and communication, and this increases the costs of the bank and affects its ability to deliver an acceptable quality of service.

South African banks operating in emerging markets do indeed have to cope with the challenges of an underdeveloped and poorly-maintained physical infrastructure when they operate in emerging markets. This, it may be argued, can cause significant increases in the operating costs of the banks because it forces them to invest in their own infrastructure. It is true, however, that banks play a significant role in convincing local governments to invest money in infrastructure so that these banks will be in a position to contribute to growth in the local economy.

*Research question 2b: What marketing strategies should be implemented by banks in order to cope with the existence of the underdeveloped physical infrastructure in emerging markets?*

South African banks operating in emerging markets overcome the challenge of underdeveloped physical infrastructure by either investing in their own infrastructure, or else by collaborating with the government so that they will be in a position to encourage it to invest in upgrading the local physical infrastructure.

There is support in the literature for businesses using a strategy of investing in their own infrastructure and for businesses seeking to collaborate with government in order to encourage investment in infrastructure.

In order for banks to overcome the challenges presented by an underdeveloped infrastructure, they need to invest in infrastructure such as ATMs rather than to invest in physical branches, because ATMs obviate the challenges presented by physical distance and the expenses associated with branches. But in order to establish their presence in emerging markets, banks are compelled to invest in infrastructure such as bandwidth and other necessary IT.

Critics may argue that this increases the costs of expanding into these markets. Close collaboration with government is essential if banks wish to be in a position to encourage local authorities to invest in infrastructure. Wherever this takes place, it is the government that bears the cost of the necessary infrastructural development rather than the bank itself.

*Research question 3a: What marketing challenges are created by the lack of an adequate legal infrastructure in emerging markets?*

The majority of participants agreed that an underdeveloped legal system was not a key challenge to their banks when they operated in emerging markets.

The literature focuses mainly on the challenges that are experienced by manufacturers because of the underdeveloped legal system. The only mention of these challenges and how they affect banks were made by Khanna et al (2005:63), where they noted that the lack of a functional legal system hampers a bank's ability to enter into local joint ventures agreements, and that this can be attributed to the unsophisticated nature and immaturity of the local legal system. This particular issue was not mentioned as a challenge by any of the participants.

No clear finding could be established because of the divisions in the responses of the respective participants. The participants, as has already been noted, were divided in their opinions about whether their respective banks are, in fact, faced with the challenge of an underdeveloped legal system as they attempt to operate normal banking services in emerging markets. While it may be argued that certain banks simply do not regard this disadvantage as a challenge, the lack of unanimity among the participants may be attributed to the enormous discrepancies between different emerging market countries.

*Research question 3b: What marketing strategies need to be implemented in order to overcome the lack of an adequate legal infrastructure in emerging markets?*

The majority of the participants evidently did not regard the existence of an underdeveloped legal system as a challenge. Those participants who did feel that the existence of underdeveloped infrastructure was a challenge that had to be met, recommended working closely with the local government and regulators in order to meet this challenge.

Literature identifies the need for businesses to work closely with the government in order for them to meet the challenge of an underdeveloped legal system. This coincides with the approach that has already been practised by some of the participants in this study.

The majority of participants did not regard the underdeveloped legal system as a key challenge. This could arguably mean that the magnitude of this particular challenge is different in a number of the countries in which South African banks operate. It may also be possible that the legal systems of some countries are similar to those of South Africa, and that this makes it less of a challenge to understand and cope with

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the legal requirements of the emerging market into which these banks have expanded.

*Research question 4a: What marketing challenges are created by the shortage of market and consumer data in emerging markets?*

The majority of participants agreed that their respective banks are able to cope with the challenges that arise out of the shortage of market and consumer data. Banks have to deal with the difficulty of segmenting markets because of a shortage of data. The quality of available data is poor, and this impedes decision-making.

The feedback from participants supports the literature in the sense that (1) marketers struggle to obtain sufficient reliable data on which to base their key business decisions, and (2) banks struggle to grant credit because of a shortage or absence of personal credit information.

South African banks that operate in emerging markets face the challenges of a shortage in market and consumer data. This hampers the ability of banks to undertake a proper segmentation of the local emerging market. Banks therefore face challenges that are similar to those that have to be faced by businesses that operate in the manufacturing and retail industries.

*Research question 4b: What marketing strategies need to be implemented in order to overcome the challenges associated with the shortage of market and consumer data in emerging markets?*

South African banks believe in conducting their own primary research in combination with secondary desktop research in order to compensate for the challenge of a shortage or complete absence of market and consumer data. Some South African banks work closely with the government of the country in which they operate in order to obtain access to key data. South African banks have pioneered the creation of collaborative efforts in the form of networks that cooperate in order to gather the necessary market data in emerging markets that will compensate for the shortage or absence of such information.

The literature confirms the need for banks to conduct their own primary market research while operating in emerging markets in order to contribute to the long-term stability of their businesses. It is furthermore emphasised that it is cost-effective to use organisations and networks in emerging markets where there are non-competing industries in order to share information and research that will be of benefit to the group as a whole.

South African banks have met the challenge of a shortage in market and consumer data both by conducting their own secondary research and by investing in primary market research by working closely with the government and by creating non-competitive consortia that gather information and study trends and patterns of consumer behaviour in the various emerging markets in which they operate. It might be argued that this could increase the cost of expanding into these markets because primary research of this kind tends to be expensive. South African banks are, however, examining less expensive ways of collaborating with local governments and other operators in the field, by participating cross-industry consortia and networks that can share in the cost of primary market research so that they will all be in a position to share in and benefit from ideas and crucial business information.

*Research question 5: What other marketing challenges do South African banks have to cope with when they face the necessity of operating in emerging markets?*

Participants highlighted language heterogeneity and the shortage of trained skills in their operating emerging markets as additional marketing challenges.

Although these challenges were not mentioned or discussed in literature, they can be regarded as key challenges that are being experienced by South African banks that operate in emerging markets.

These findings indicate that South African banks have to face the challenge of language heterogeneity and a shortage of a staff trained in the required skills when they do business in emerging markets. It can be argued that this could result in an increase in costs for these banks, because funds will have to be allocated for the additional training of staff in those areas in which they need to acquire additional key skills. Language heterogeneity could also therefore prompt banks to consider the possibility of training expatriate staff.

## **MANAGERIAL IMPLICATIONS AND RECOMMENDATIONS**

It is evident from the research that South African banks face all the challenges that accompany the existence of a dual economy in an emerging market. In these emerging markets, a small sector of the population is wealthy and privileged (they represent the minute peak of the population pyramid in terms of numbers), while the great mass of the population (represented by the large base of the population pyramid) is by comparison far less affluent. But, in the spite of their lack of individual wealth, the sheer number of consumers at the bottom of the pyramid offers any

enterprising bank significant opportunities for operating profitably in emerging markets.

Banks should therefore enter a market with a business banking value proposition. This approach allows a bank to enter the market and to provide banking services to the traditionally banked sections of the market that include businesses and corporations, and then, at a later stage, to expand their offer to accommodate the retail/consumer market. It should be noted that South African banks do not ignore the lower end of the dual market. This sector of the market is simply serviced at a later stage after the bank has secured the custom of the more affluent sector of the local market.

South African banks face the challenge of a shortage or absence of market and consumer data while operating in emerging markets. This does indeed impede the ability of banks to carry out proper segmentation in the local emerging markets.

It is suggested that South African banks that operate in emerging markets should rely on a combination of secondary and primary research in order to compensate for the shortage of reliable and usable data. South African banks are therefore forced to conduct their own primary research through the agency of various local and international research organisations that gather primary data. South African banks also create or take advantage of cross-industry consortia and networks that have been created in emerging markets in order to share information between non-competing businesses. This is supported in some countries by the close cooperation with local government in order to generate reliable government statistics and data. It should be noted, however, that arrangements for the collection of primary data increase the operating costs of business expansion into emerging markets.

South African banks face the challenge of underdeveloped physical infrastructure while operating in emerging markets. The most daunting challenges in this regard were the existence of a poorly-maintained and rudimentary road system, the unavailability or slow speed of available bandwidth, and the challenge of locating suitable buildings in which to carry out their operations. It should be noted that attempts to compensate for these defects and inefficiencies can significantly increase the operational costs of banks as they are forced to invest in their own infrastructure and make their own alternative arrangements. Banks also play a significant role in convincing local governments to invest in infrastructure so that they can more readily contribute to the growth of the local economy.

It is recommended that banks should invest in building up their own infrastructure in order to meet the challenge of local shortages and the defects and deficiencies of a



local undeveloped physical infrastructure. Some banks have invested in ATMs and a mobile branch infrastructure that is supported by satellite technology in order to meet the challenge created by physical distance. This obviously also increases the costs of expanding into these markets. Close collaboration with government is critical, because it puts banks in a position to encourage the local authorities to invest in infrastructure. When this happens, it is the local authorities rather than banks themselves that bear the cost of infrastructural development.

Respondents were divided on the issue whether South African banks face significant challenges due to underdeveloped legal systems when they operate in emerging markets. It is, however, important that those banks that experience the underdeveloped legal system of other emerging markets as a key challenge, emphasised the need for closer collaboration with the local governments of those countries in order to acquire a better understanding of local regulations and conditions.

South African banks emphasised the shortage of personnel with the necessary training and skills in emerging markets as a key challenge to their operations. Most local residents do not have the necessary skills to perform the functions that are required by the operations of a South African bank. The representatives of the South African banks also drew attention to the differences in languages between the home and foreign market as presenting key challenges that have to be met in order to conduct business and to promote their products and solutions.

It is recommended to provide staff with language and skills training. It should, however, be noted that this will lead to additional costs for these banks.

## **LIMITATIONS AND FUTURE RESEARCH**

Due to the senior positions occupied by participants, many found it difficult to block out a sufficient period of time in their diaries to allow the researcher to conduct the necessary research in a relaxed and uninterrupted environment.

This study has identified the following three potential topics for future research:

- Firstly, research could be conducted into the question of whether South African banking products and channels are obtaining a competitive advantage in emerging markets because of their emerging market heritage.

- Secondly, research could be conducted into the standardisation of South African banking brands across emerging markets and the challenges that are experienced when this approach is implemented.
- Thirdly, comparative research could be conducted between the two major South African banks that have respectively chosen a 'greenfields' approach and a bank that has opted for an acquisition strategy.

## CONCLUDING REMARKS

The research identified a significant gap in the current body of literature about the marketing challenges that face service organisations – and banks in particular – when they decide to extend their operations into emerging markets. This research identified a specific set of marketing challenges that face the banks, as well as the variety of strategies that South African banks are implementing in order to meet these challenges.

This makes a significant contribution to the existing literature and enables a better understanding of how a South African service-based organisation can address a whole range of marketing challenges when they operate in emerging markets.

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