An emerging market is one that isn’t quite there yet, but is on its way. Or, it can be poor with potential or already fast growing, but none of these is much of a detailed definition. Harvard Business School Professors Tarun Khanna and Krishna Palepu have studied emerging markets for the past 15 years. They coined the term “institutional voids” to help explain the market ecosystem that companies are dependent on, and the fact that the institutions that make up this market ecosystem are either missing or not functioning as expected in emerging economies. They are referring to labor markets, product markets and capital markets in general.

Take, for example, physical infrastructure. Many companies including auto manufacturers are impacted by the quality and connectivity of roads and highways. India is on its way to transforming this infrastructure, but companies operating in India will agree that there is some way to go, in essence creating an institutional void that impacts growth.

Tata Motors provides an appropriate story of how to innovate when you encounter an
institutional void. Tata traditionally dominated commercial vehicle sales in India, with about 60 percent of the market share. Then it began getting squeezed by Volvo, which was going after the high-end truck market, and the Japanese car companies that crept into the car market. Tata realized that in order to compete, they had to innovate and design a new truck that could take advantage of the poor downtown infrastructure, with cramped narrow streets that are hard to reach with large trucks. Previously, the downtown markets were served by open two- and three-wheeled vehicles that were dangerous, polluting vehicles. So Tata designed a mini-truck that was safe, environmentally sound, could make U-turns on the tight streets, and carry loads that suit the needs of local commerce.

When Coca Cola found that their beverages were being sold “warm” in many locations in India, they immediately realized that they had to do something to bring the chill back into the bottle so that consumers would buy more. The challenge was that while there were coolers in these locations or outlets, electricity supply was patchy and the bottles would stay warm – especially on hot summer days when power cuts were more common in these places. They responded by building a solar powered cooler by working with a local refrigeration company that could help keep the cost low. Even if these coolers don’t chill the bottles, they can do a pretty decent job of lowering the temperature to a few degrees below ambient temperature – that would be much better than drinking a warm coke! I am not familiar with the results of this experiment, but it seems like a very good way to deal with yet another institutional void.

These stories all illustrate creative solutions driven by the vagaries of individual markets – and have happy endings, as well.