



# Reaching middle class consumers in emerging markets: Unlocking market potential through urban-based analysis



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## ARTICLE INFO

### Article history:

Received 15 October 2014  
Received in revised form 7 March 2016  
Accepted 11 March 2016  
Available online 25 March 2016

### Keywords:

Urban-based market potential analysis  
City-based market potential analysis  
Granular approach  
Middle class  
Emerging markets

## ABSTRACT

The international business landscape has transformed in dramatic ways over the past three decades. In particular, the importance of middle class households, concentrated especially in urban areas in emerging markets, is now well-recognized. We propose and demonstrate a systematic approach to urban-based market potential analysis. Based on international market segmentation literature, our key argument is that a more focused market potential analysis, based on middle class households, is superior to an aggregate, country-level market potential analysis. The proposed method highlights specific market potential indicators, especially suitable for middle class analysis. Further, we demonstrate this new approach through a case study. Finally, this manuscript positions itself as a managerial tool.

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## 1. Introduction

The rise of the middle class has accentuated the attractiveness of emerging markets for western business. Middle class consumers in emerging markets are now exposed to western lifestyle and brands thanks to global media and communications. These consumers now hold high aspirations for upgrading their standards of living and lifestyles. Thanks to rapid economic growth and rising disposable income, they can now afford a wide variety of products and services. As such, middle class households in emerging markets now represent viable and significant target market segments for western businesses—only if they can be clearly identified, quantified, and targeted.

Scholars and practitioners have offered numerous techniques to delineate foreign market potential. These include: the three-step approach (screening, identification, and selecting) (Cavusgil, 1985; Koch, 2001; Kumar, Stam, & Joachimsthaler, 1994); indexing and ranking (Armstrong, 1970; Cavusgil, 1997; Connors, 1960; Liander, Terpstra, Yoshino, & Sherbini, 1967; Lindberg, 1982; Mullen & Sheng, 2006; Samli, 1977); and clustering (Cavusgil, Kiyak, & Yenyurt, 2004; Liander et al., 1967; Sethi, 1971). They are carried out with such estimation models such as cluster analysis, portfolio analysis, conjoint analysis, multiple factor analysis, regression analysis, shift-share analysis, and multiple criteria methods (Ozturk, Joiner, & Cavusgil, 2015). These techniques are useful to

assess the overall potential of a country and the ranking top prospective markets. For example, in a study of African markets, Deloitte (2012) ranks Morocco as a highly attractive market due to a substantial middle class, whereas Tanzania represents a market with a relatively small middle class. Based on those results of the study, one can expect that Morocco provides more opportunity for companies than Tanzania does. However, the results do not provide accurate information as to which part of a national market offers the greatest potential regarding middle class. In support of our assumption, some studies of the Global Cities Initiative, developed by Brookings Institute and JPMorgan Chase, acknowledge that investors may take the advantage of being early movers if only they identify opportunities in urban areas (Finch, 2014). As a result, country-level analyses are not quite adequate for delineating the specific market potential of middle class households. On the other hand, a finer analysis based on urban locations within a country can better represent the market opportunity for the middle class in emerging markets.

A more focused, granular approach that examines finer subsets of a large country can pinpoint the attractive middle class consumer segment. In the present study, we propose a more focused approach where emerging market potential can be assessed by not just considering the entire country as a whole, but one that delineates different regions or cities within a country. Such a granular approach is especially suitable for large and diverse emerging markets like China, Indonesia, Mexico, and India.

The primary rationale for forming urban-based clusters is the diversity within a country fostered by ethnic groups,

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socioeconomic classes, languages, infrastructure, geography, and consumption patterns. For example, China has 56 different ethnic groups (Atsmon, Child, Dobbs, & Narasimhan, 2012), and the number of languages spoken in India is about 438 (Economist, 2012). The complex composition of many emerging markets causes an uneven distribution of middle class within a country. Therefore, the consideration of an emerging market as a whole may lead to misleading conclusions about the consumption behavior of emerging market consumers. In an urban-based approach, managers focus on regions or cities with high potential to access neglected middle class consumers (Agrawal, Choudhury, Pokardas, Rastogi, & Srivastava, 2014; Lane, St. Maurice, & Wu, 2006).

There is some evidence in the academic literature, but especially in management consulting circles, that a more focused, urban-based market potential analysis is superior to traditional approaches. From an academic perspective, Schlager and Maas (2013) recommend a micro level analysis for segmentation, given the highly diverse institutional context in emerging markets. In this regard, “within-country heterogeneity” requires “a finer grained level of aggregation in EMs.” Likewise, Desarbo, Jedidi, and Sinha (2001) advocate that an aggregate analysis cause inconsistent parameter estimates in the existence of a heterogeneous cluster.

From the perspective of practitioners, consulting companies<sup>1</sup> and governmental organizations<sup>2</sup> advocate the use of a city- or urban-based approach to identify the real potential within large and diverse markets. For example, WEF (2014a) extends the leading *Global Competitiveness Index* for countries to the city level. One of the factors to be considered for city competitiveness is the emerging middle class and urbanization.

Moreover, studies by both PwC (2014a) and United Nations (2014) point out emerging markets cities as the solution for the aging population in advanced economies. These cities host a growing number of young generations who are the source of talent and consumption for companies.

Furthermore, in another study, PwC (2014b) refers to urban areas in growth economies, especially in Asia-Pacific, as target markets for infrastructure sectors like water, power, mining, transportation, telecommunication and construction by 2025.

In addition to companies operating in the B-to-B sector mentioned above, cities also provide big opportunities for consumer goods firms. For example, a McKinsey study authored by Kim, Remy, Schmidt, & Durand-Servoingt (2014) argue that multinationals operating in luxury-goods sector ought to develop a strategy at the city level. Rather than considering a country as a whole, managers may identify top cities in emerging markets to target.

As a particular best practice, in referring to a well-known technology company operating in India, McKinsey suggests that the company has reduced customer service cost from 11 to five percent of sales by targeting 67 cities, instead of 200 cities previously considered (Atsmon, Kertesz, & Vittal 2011). Similarly, Haier, a leading Chinese white goods manufacturer, organized its sales management teams by provinces as well as cities (Kleiner, 2014).

An important rationale for an urban-based market potential analysis is that consumption patterns vary among different cities within a country, especially in large emerging markets. For example, the preference for yogurt in Wuhan is significantly higher than it in other cities in China. Thus, a city-based approach may facilitate to pinpoint marketing strategies like product

adaptation, pricing, the type of the products and others based on local needs and preferences (Dobbs, Remes, & Schaer, 2012).

If different perspectives of practitioners are simultaneously considered, we may draw the following specific conclusions for B-to-B and B-to-C sectors regarding the rationale of an urban-based market potential analysis.

### 1.1. Rationale of an urban-based market potential analysis for B-to-B sector

Firstly, companies operating in the business-to-business sector may benefit from an urban-based market potential approach. Governments in many emerging markets invest in the public-private collaboration to build new cities and enhance the modernity in existing urban areas. Such efforts aim to build a good infrastructure equipped with modern technologies and thus, to boost the economic activity in a country.

Infrastructure projects are usually implemented through collaboration between government and the private sector. Thus, they provide significant opportunities for construction, transportation, mining and engineering firms.

### 1.2. Rationale of an urban-based market potential analysis for B-to-C sector

Secondly, because urban areas with developed infrastructure provide a better life, they attract people from rural areas resulting a growing immigration from rural into the urban locations. Thus, the population growth mainly concentrates in mega and mid-sized cities in both emerging and frontier markets. Growing population means an increase in the number of potential end consumers that results in higher profit margins for companies operating in the consumer goods sector.

Although a focused analysis of a country should provide more precise details about market potential noted above, well known consulting companies contend that many international managers still prepare strategic business plans at the country level (Atsmon et al., 2012). A possible reason for neglecting an urban-based market potential analysis may be the lack of knowledge about how to conduct such a granular analysis and also the uncertainty as to what relevant data and metrics should be employed. Moreover, the academic literature has not yet acknowledged the need for granular approaches based on the potential of middle class consumers in urban areas. Consequently, the purpose of this manuscript is to propose and demonstrate a systematic approach to urban-based market potential analysis, especially suitable for middle class studies. This approach introduces specific metrics to assess market potential. Moreover, it also takes into account the high potential of the rising middle class in emerging markets. Key features of this proposed granular approach are the focus on middle class and the consideration of urban areas.

We aim to contribute to knowledge in international business in four distinct ways. First, this research provides a new perspective to market potential analysis. A refined market potential analysis is offered as an alternative measurement to the aggregate, country level market potential analysis. A country-level approach is replaced with the urban-based perspective regarding the unit of analysis. Second, the urban-based perspective enriches the literature on global market segmentation. Although some scholars refer to the importance of identifying finer customer segments within a country for developing international market entry strategies (e.g., Schlager & Maas, 2013; Douglas & Craig, 2011; Palumbo & Teich, 2004; Lenartowicz & Roth, 2001), they have not offered alternative approaches. Additionally, business practitioners emphasize “the need for a systematic approach to evaluating cities and their metropolitan areas as distinct markets” (Finch, 2014).

<sup>1</sup> For example, McKinsey, Boston Consulting Group (BCG), Ernst & Young (EY), and PricewaterhouseCoopers (PwC).

<sup>2</sup> For example, United Nations (UN) and World Economic Forum (WEF).

Third, the proposed method highlights specific metrics and data, especially suitable for middle class analysis that tends to be found in large numbers in urban areas. Finally, the suggested approach is demonstrated through a case study, and practical insights are proposed for researchers and managers. In sum, the manuscript provides an alternative approach to market potential analysis. Thus, it is best conceived as a managerial tool for companies exploring large and diverse markets.

The remainder of this manuscript is organized as follows. First, we provide a discussion of market potential for middle class in the context of emerging markets. Next, the need for urban-based market potential analysis is elaborated, employing current examples from business practice. Third, the proposed approach and metrics are presented. Then, the proposed approach is demonstrated using a case study. Lastly, managerial implications and future research directions are offered.

## 2. Urban-based approach to market potential analysis

### 2.1. Why urban-based market potential analysis?

The need for urban-based market potential analysis is desirable for a host of conceptual and managerial reasons. We offer three types of rationale to illustrate this need: avoiding methodological nationalism, targeting urban areas as a part of the sector-based strategy, and data availability. We discuss these next.

#### 2.1.1. Avoiding methodological nationalism

A vast majority of research in international business has neglected within-country differences, often using the nation as a unit of analysis. The substantial diversity within most emerging markets dictates a fine-tuned, focused approach (Schlager & Maas, 2013). Large geographies, ethnic groups, socioeconomic classes, languages, infrastructure and varying accessibility contribute to this diversity. The diverse nature of emerging market societies can be explained with challenges like market imperfection, an unstable political system and unfavorable regulations many growth economies face. Such ingrained adverse circumstances cause an unequal distribution of resources within those countries. As a result of the inequality, such characteristics as economic infrastructure, political systems, income level, education, and value systems vary widely. This diversity leads to varying consumption behaviors and preferences (Schlager & Maas, 2013; Peng, Wang, & Jiang, 2008; Hoskisson, Eden, Lau, & Wright, 2000). As an example, different regions in Brazil represent distinctly diverse cultures. It would be simplistic to compare consumer behavior in the East with those in the Northeast of the country. Likewise, India's regions are culturally and economically diverse. Geography, income and caste groups tend to shape different consuming groups in India. While big cities such as Mumbai and Bangalore host a richer and more literate population, companies have to contend with poorer and less educated consumers in the east. Moreover, consumption behavior is different among caste groups (Birkner, 2014; Dickey, 2012; Pick & Müller, 2011). A recent study in China indicates that product evaluation processes by Chinese consumers living in Shanghai and Chongqing vary regarding brand attitudes, quality perceptions, and preferences (Tam & Elliott, 2011).

Considering the reality of substantial heterogeneity, treating an emerging market as a homogenous unit may yield inaccurate and misleading business insights. An aggregate analysis at the country level overlooks meaningful differences among diverse subpopulations. Therefore, it provides inconsistent parameter estimates (Desarbo et al., 2001). Rather than considering a country as a whole, focusing on its smaller, more homogenous parts such as regions, cities, towns, etc. should provide more accurate insights about the potential of an emerging market. In the process, the

researcher can manage to avoid the trap of methodological nationalism.

#### 2.1.2. Targeting urban areas as part of a sector-based strategy

As we observe in both developed and emerging markets, governments have been positioning some urban areas as 'centers of excellence' – locations where competitive advantage exists. The public sector is deliberately nurturing intelligent cities in order to differentiate these areas. An important rationale for developing sector-based hubs is the investment in human capital. The development of human capital leads to a powerful talent pool and fosters innovation in a particular area within a country. Well-educated and productive talent pool will not only increase the capacity for entrepreneurship of the country but also attract investment from multinational companies (Caragliu, Del Bo, & Nijkamp 2009; Giffinger et al., 2007; Hollands, 2008; Neirrotti, De Marco, Cagliano, Mangano, & Scorrano, 2014; Toppeta, 2010).

An example of deliberate efforts to create centers of excellence, so-called "smart cities", is Singapore. The visionary government policies positioned the small island not having significant natural resources as an "intelligent city," more specifically as an "electronic hub". The main focus of the government was on the development of *human capital*. An IT-based education system was created in public schools as well as in vocational institutions. Additionally, the government largely invested in information technologies to maintain a world class IT infrastructure (Mahizhnan, 1999).

A similar initiative by governments is to position individual cities or regions within a country as *industrial hubs* for Western multinationals. Creation of hubs is associated with the dimension, "related supporting industries", in Michael Porter's "Diamond Model" (Porter, 1998, 1995). The development of industrial hubs is a strategy utilized by governments of many emerging markets to leapfrog the country to the level of industrialized economies. For instance, Beijing, Shanghai, and Shenzhen/Guangdong are vying to attract biotech multinationals (Kelly, Lachs-Kaplan, & Star, 2014; Radjou, Prabhu, Kaipa, & Ahuja, 2010). Dalian in China is an important hub for such western multinationals as Intel, Dell, and HP due to its growing electronics and IT sectors (WEF, 2014b).

Most industrial hubs are associated with being *innovation centers* within the country in question. They create a platform for research and development activities as well as support entrepreneurship (Suciu & Florea, 2013). For example, Xerox launched an innovation hub in Chennai (India) in 2010. Bangalore, Chennai, Hyderabad, and Pune are positioned as the Silicon Valley in Asia (Rai, 2014). Furthermore, Wipro, Tata Consulting Services, Infosys, and Texas Instruments have already established centers for research and development in Bangalore (Clark & Moonen, 2013).

A city can also create a competitive advantage for an emerging market as a "*transportation hub*" for international trade and investment. More recently, an increasing number of governments attempt to position certain urban areas within a country as "airport cities" (Wiedemann, 2014) also called "aerotropolis" (Lindsay, 2011). The major rationale behind such a government initiative is that many companies invest in cities located near large international airports. Therefore, aerotropolis are becoming transportation and retail hubs connecting trade centers worldwide (Marano, 2014; Wiedemann, 2014; Freestone & Wessel, 2014; Appold & Kasarda, 2013).

Dubai is another illustration creating an attractive city in a desert. Thanks to its impressive international airport, there is a robust flow of vacation and business traffic to and from Dubai. Similar examples are Hong Kong, Singapore, and Bangalore (Lindsay, 2011). Similarly, Taoyuan International Airport (TIA) of Taiwan is a connection point for Tokyo, Incheon and Beijing in the north as well as for Hong Kong, Singapore and capitals of

Association of South East Asian Nations (ASEAN) in the south (Wang & Hong, 2011).

As noted above, the trend is towards the creation of urban areas with distinctive positioning and reputation. The most preferred positioning dimensions are innovativeness, entrepreneurship, information technology, logistics, and talent pool.

### 2.1.3. Data availability

Growing availability of data at the municipal level, including cities and regions, enables researchers to carry out a more granular market potential analysis. Numerous research and consulting firms now provide finer data on urban areas within emerging markets. These include *Euromonitor International*, City Population ([www.citypopulation.de](http://www.citypopulation.de)), Global Cities Index by A.T. Kearney, Urban Development by World Bank, and EIU City Data by the *Economist Intelligence Unit* (City Population, 2016; EIU City Data, 2016; Euromonitor International, 2016; Global Cities Index, 2016; Urban Development, 2016).

In sum, the underlying logic for an urban-based market potential analysis is the inefficiency of the aggregate approach. The recommended approach avoids methodological nationalism. The availability of data at the city- and region-level renders urban-based analysis a wise alternative to market potential.

### 2.2. Concentration of middle class households in urban areas: a key justification for urban-based market potential analysis

The phenomenal rise of middle class households has presented western businesses with a substantial market opportunity. Interestingly, the middle class in emerging markets is largely concentrated in urban areas (Dobbs et al., 2011; Walters, Barton, Cunha, Niavas, & Singhi, 2013).

Consumers in emerging markets now aspire to a better quality of life and migrate from rural locations to urban areas in search of better standards of living. Urbanization contributes to income growth, as cities provide greater job opportunities with relatively higher wages (Cui & Song, 2009; Hamer, 1995). For example, some 80 percent of total GDP in Africa results from urban areas (Deloitte, 2012). As a result, the size of the middle class is growing rapidly in dynamically transforming economies.

Middle class households have been targeted as an attractive consumer segment by multinationals due to their spending power and growing size. They have high aspirations for high-quality products and services to enhance their quality of life and tend to upgrade their choices to more expensive, discretionary alternatives (HBR, 2012; Panteado, 2010; Cui & Liu, 2001). As household income rises, a growing share of the total budget tends to be allocated to needs beyond food, clothing, and other necessities. Families tend to consume more discretionary and small luxury items such as appliances, a bigger house, electronic gadgets, smartphones, flat screen TVs, and even take time off for holidays (Panteado, 2010; Farrell, Gersch, & Stephenson, 2006; Meredith,

2004). Leading consumption items that tend to be sought by the middle class include automobiles (Nielsen, 2014; Simpfendorfer & Every, 2013; Emerging Markets Weekly, 2010). For example, the automobile market in Indonesia is larger than that in Australia and Spain (Simpfendorfer & Every, 2013).

Targeting middle class consumers in emerging markets is essential for western businesses that are vying to cultivate these new markets. Estimates indicate that the number of global middle class consumers will rise from 1.8 billion in 2009 to 3.2 billion by 2020 (Kharas & Gertz, 2010). Asia, Africa, and Latin America will contribute to the growth in a big way (Ghoshal & Varma, 2012). The number of middle class households in emerging markets is expected to increase from 94 million in 2012 to 200 million by 2022 (Ernst & Young, 2014). In addition to its growing size, the middle class is also attractive for businesses due to rising discretionary consumption. Spending by middle class consumers in emerging markets is anticipated to increase to \$ 20 trillion by 2020. This amount is double the current consumption in the United States (Court & Narasimhan, 2010).

Key drivers of middle class growth in emerging markets include urbanization, young population, rising wages, market liberalization, industrialization, modernization, reforms, and productivity growth (Cavusgil & Kardes, 2013b; Kravets & Sandikci, 2014; Olson, 2013; Emerging Markets Weekly, 2010). Non-OECD countries achieved a GDP growth rate of about 6.5 percent between 2000 and 2013, whereas OECD economies did just about two percent (OECD, 2013). For example, the GDP growth rate in China is expected to be twice as much as that of the U.S. and about four times of EU by 2015 (OECD, 2014).

## 3. Proposed method and indicators for urban-based market potential analysis

In previous studies, market potential analysis examined such relevant indicators as income, population, expenditure, and GDP—all at the national level. The proposed urban area based approach considers such relevant indicators into account and employs specific metrics for middle class segmentation.

Leading indicators that may be considered for urban-based market potential analysis is presented in Table 1. We discuss each suggested indicator next.

### 3.1. Population growth/number of households

According to a recent study, six out of ten big cities with the largest population growth between 2013 and 2025 are expected to be in emerging markets (PwC, 2014a). As suggested in the academic literature on market segmentation, practitioners have already created urban clusters based on the number of people living in an area (see: Jin et al., 2010; Devan, Negri, & Woetzel, 2008). For example, in China, such western banks as HSBC and

**Table 1**  
Overview of urban-based market potential indicators.

Indicators	Rationale	Study
Population growth/ Number of households	Clustering cities such as mega, big, mid-sized, small	PwC 2014a, BCG 2010 (Jin et al., 2010); McKinsey, 2008 (Devan et al., 2008)
GDP & GDP growth	Comparison between an urban area and a country	WEF, 2014b; Silk Road Associates 2013 (Simpfendorfer & Every, 2013); McKinsey, 2012 (Oberman, Dobbs, Budiman, Thompson, & Rosse', 2012), McKinsey 2011 (Dobbs et al., 2011)
Expenditure per household	Comparison between an urban area and a country	McKinsey 2014 (Kim et al., 2014), McKinsey 2011 (Benshimol Severin et al., 2011)
Qualified employee/ Talent pool	Classifying cities as innovation hubs	WEF 2014b; Deloitte 2014 (Kelly et al., 2014); Forbes 2014 (Rai 2014); Brookings Institution 2013 (Clark & Moonen, 2013)
Size & intensity of the middle class	The concentration of the middle class within a country	Financial Times 2011 (Kazmin, 2011); BCG 2010 (Jin et al., 2010)

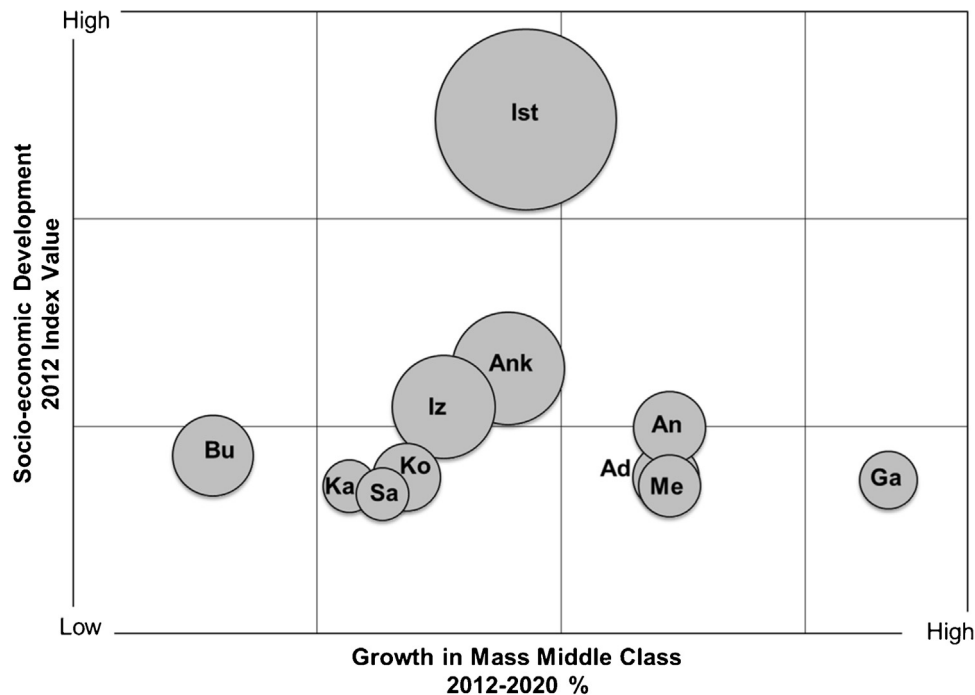


Fig. 1. Market potential in Turkish major cities.

Data from Euromonitor International 2013, TUIK 2014, and Isbank (Gul & Cevik 2014).

Citibank are increasingly investing in mid-sized cities beyond the large cities like Shanghai, Beijing since 2007 (Dyer, 2007).

### 3.2. GDP & GDP growth

Emerging market cities are predicted to account for about 40 percent of world GDP by 2025 (Dobbs et al., 2011). For example, Dalian is the new growth region in China. The GDP growth rate of the city was about ten percent between 2011 and 2012. In 2012, its GDP per capita reached at \$16,200 that was more than twice as much as that of the national average (WEF, 2014b).

### 3.3. Expenditure per household

Household expenditures in emerging market cities offer substantial opportunities for western businesses. Seven large cities in emerging markets – Beijing, Hong Kong, Tianjin, Rio de Janeiro, Guangzhou, Chongqing, and Shenzhen – are expected to be top consumers of luxury products over the next decade (Kim et al., 2014).

### 3.4. Qualified employee/talent pool

Cities that showcase a rich and diverse talent pool are attractive for multinationals as innovation centers. Some well-known companies have already shifted their research and development activities to such emerging market cities. Some emerging market cities have gained importance as “learning hubs” where firms experiment with new product ideas, business models, and marketing strategies. For example, Standard Bank of South Africa first established its bank offerings for low-income consumers in large South African cities and achieved remarkable success. It replicated this success in Kenya and Nigeria (Kelly et al., 2014).

### 3.5. Size and intensity of the middle class

Middle class consumers represent the consumption engine in today's emerging markets. Urbanization is critical to middle class growth. For example, the size of the middle class boomed with the increasing urbanization especially since 2011 thanks to reforms by the government in China where the middle class was barely visible, four percent of urban households, about 15 years ago (Davison,

Table 2

The size of mass middle class household and number of households.

Acronym in Fig. 1		Average Household Annual Disposable Income by Mass Middle Class (MMC), \$		Growth in MMC 2012–2020, %	Number of households
		2012	2020		
Adana	Ad	\$ 25,694	\$ 41,482	61%	535.719
Ankara	Ank	36,130	54,822	52	1.512.188
Antalya	An	25,670	41,498	62	638.424
Bursa	Bu	32,624	43,581	34	782.935
Gaziantep	Ga	21,238	37,190	75	400.637
Istanbul	Ist	42,157	64,429	53	3.886.890
Izmir	Iz	29,932	44,233	48	1.263.312
Kayseri	Ka	25,645	36,407	42	341.910
Konya	Ko	35,379	51,468	45	557.522
Mersin	Me	25,670	41,498	62	470.160
Samsun	Sa	25,231	36,332	44	337.220

Data from Euromonitor International 2013 and TUIK 2014.

**Table 3**  
The level of development—index value and ranking of selected cities.

City	Acronym in Fig. 1	Index value	Ranking out of 81 cities
Istanbul	Ist	36.56 <sup>*</sup>	1
Ankara	Ank	12.54	2
Izmir	Iz	8.84	3
Antalya	An	6.85	4
Bursa	Bu	4.14	5
Adana	Ad	2.09	8
Konya	Ko	2.07	9
Gaziantep	Ga	1.79	10
Mersin	Me	1.26	13
Kayseri	Ka	1.17	14
Samsun	Sa	0.43	19
Hakkari	–	–3.15 <sup>**</sup>	81

<sup>\*</sup> The maximum index value.

<sup>\*\*</sup> The minimum index value. It is included for comparison. Source: Gul and Cevik, 2014: 5.

2014; Economist, 2014). Moreover, the expansion of middle class boosts the urbanization through the increasing needs for a new and better infrastructure like skyscrapers, large houses, roads, schools, hospitals, and so on (Davison, 2014).

As a conclusion, the leading consulting companies, McKinsey (Jin et al., 2010) and Boston Consulting Group (Cunha, Cheng, & Abida, 2013), suggest multinationals a significant presence in many cities within an emerging market. Thus, companies can capture many middle class consumers.

#### 4. An illustration to demonstrate urban-based analysis

Consider the following as an illustration. Assume that a company requires information about the fast-growing middle class households in Turkey – a dynamic emerging market. We use the following metrics for the illustration purpose: Decile-based household disposable income by middle class in 2012 (the latest data) and by 2020 as well as the number of households and the level of socio-economic development in 2012. Related data are gathered at the city level where major big cities are selected from each region in Turkey.

All data are collected from secondary sources. We utilize the database of Euromonitor International for household income, the Turkish Statistical Institute for the number of households and a report published by the well-known Turkish financial institution, Isbank (Gul & Cevik, 2014), for the socio-economic development level of cities. Fig. 1 presents our illustration.

The horizontal dimension in Fig. 1 refers to the growth in mass middle class size between 2012 and 2020 in selected cities. The decile-based distribution of household disposable income is considered for the analysis of mass middle class size. The decile-based analysis splits households into ten equal groups. Decile 10 represents the richest socio-economic group, and Decile 1 the poorest socio-economic group in society.

Based on the guidelines for *GSU-CIBER Middle Class Scorecard* (Cavusgil & Kardes, 2013a, 2013b, 2013c), we consider the proportion of household disposable income accounted for Deciles 5–6 to calculate the size of the mass middle class. The data for 2012 and 2020 are used to calculate the expected growth of mass middle class in eight years.

The size of circles in Fig. 1 refers to the number of households in associated cities. The data are collected from the official database of the Turkish Statistic Institute (TUIK, 2016). Table 2 presents the findings regarding the size of the mass middle class and the number of households in the selected cities.

The vertical dimension in Fig. 1 is for the level of development in cities. Isbank (Gul & Cevik, 2014) developed *The Level of Development-Index* considering several indicators based on data from a variety of government institutions in Turkey. The index combines the level of the economic and social development using 49 pillars such as population, trade and investment, housing, healthcare, education and likewise. It accounts for all 81 cities in Turkey. The maximum value of the original index is 36.56, and the minimum one is –3.15. We consider 11 among 81 cities for our illustration purposes. The original index values and the rankings for 11 cities are available in Table 3 respectively.

The analysis above enables marketers to identify trade-offs among different metrics. For example, Istanbul (Ist) has the highest socio-economic development and the largest number of households. However, the middle class in the city is growing at a moderate level. On the other hand, Gaziantep (Ga) offers the biggest opportunity regarding the middle class size. Although the number of households is small, the city is expected to be the best achiever concerning the increase in the size of the mass middle class. Nevertheless, the level of socio-economic development in the city is relatively low. At the other end another city, Bursa (Bu), experiences a disadvantage because of the lowest mass middle class and a low level of socio-economic development relatively. The city is less favorable in both dimensions compared to other urban areas in our analysis are.

In sum, the analysis provides a focused insight into the potential of the Turkish market. Relative positions of big cities may be observed in relevant dimensions for business. In this study, as relevant dimensions, we consider the level of socio-economic development, the growth in mass middle class size and the number of households.

#### 5. Insights gained from this illustration

Istanbul offers the best business environment and significant middle class consumers that encourage many companies to enter the market. Thus, Istanbul seems as the city with the highest market potential, at first glance.

However, executives have also to take account of that the good economic and social conditions as well as a significant customer base may cause a company proliferation, thus, a rough competition. Many western companies already serve middle class consumers in Istanbul. The city is the favorite investment location for multinationals. Over half of the total FDI inflow in Turkey between 2007 and 2012 was in Istanbul (Ernst & Young, 2013). Based on that evidence, we can argue that market saturation is highly possible in Istanbul.

Multinationals may consider a variety of urban areas within a country for the growth. In Turkey, business environment in other cities beyond its three biggest cities<sup>3</sup> are rapidly improving thanks to initiatives by the Turkish government and the private sector. For example, the government efforts opened new investment locations for manufacturing. Thus, some other cities<sup>4</sup> made a contribution to the global trade through exporting more than \$1 billion in 2013 (U. S. Department of State, 2014). Another example is the investment of Turkcell, the leading Turkish telecommunication company, in Gaziantep (as Ga in Fig. 1) to improve the infrastructure (Mobile Europe, 2015). Moreover, according to our results illustrated in Fig. 1, Gaziantep (Ga) is expected to experience the highest growth in the size of mass middle class by 2020.

<sup>3</sup> Based on the number of the population respectively: Istanbul, Ankara, and Izmir. (As Ist, Ank and Iz in Fig. 1).

<sup>4</sup> Among those cities, Adana, Gaziantep, Kayseri, and Konya are analyzed in this study. (As Ad, Ga, Ka and Ko in Fig. 1).

## 6. Conclusion and directions for future research

Many western businesses are now keenly interested in assessing and exploiting the market potential of rapidly transforming emerging markets. Conventional approaches that consider a country as a whole are mostly utilized for identifying opportunities. They are useful for revealing the overall potential of a country. However, they fail to provide accurate insights on which part of a national market offers the greatest potential regarding middle class.

We advocate that there is a need for a finer analysis with a particular focus on such urban locations as city, region, town, province, state, and so on within a country. The principal rationale of our argument for urban-centric market segmentation is the diversity within large emerging economies fostered by ethnic groups, socioeconomic classes, languages, infrastructure, and so on. A second reason is increasing government initiatives for positioning urban areas as centers of excellence. Such efforts aim to create human capital, industrial hubs, as discussed in Michael Porter's Diamond Model, innovation centers, and transportation hubs. A final rationale is the availability of data that enable to calculate middle class potential in different types of urban areas within a country.

In this article, we have proposed and demonstrated some novel techniques especially appropriate for examining populous emerging markets. The practitioner community has already moved to utilize such techniques. It is hoped that the academic community also adapts these new approaches.

One limitation of our study is that we do not analyze differences regarding market potential within cities but focus only on differences between cities. The second limitation is that the unit of analysis is disposable income per household, the number of households and the level of economic and social development.

For future research on urban-based market potential analysis, we point out the following suggestions. Firstly, we focus on big cities within an emerging market. Urban areas of varying size can be analyzed. Thus, we suggest a comparison among mega, mid-sized and small cities to improve the literature regarding urban-based market potential analysis. Moreover, a focus on rural areas may be a future extension of this research.

Secondly, our analysis does not include sector-based differentiation. A study related to different sectors such as housing, travel and education might contribute to the literature on international business.

Finally, the analysis can be conducted using some other metrics that we suggest in Table 1. For example, the talent pool also determines the potential of an urban area as a target market for multinationals. Thus, the number of qualified employee and the capacity for the establishment of research and development centers in urban areas can be considered to assign the market potential.

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