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Emerging Markets: The New Gold Rush?
by Michelle Bruno, CEM

It is easy to see why emerging international markets would be alluring to U.S.-based exhibition organizers and suppliers. Dr. Vladimir Kvint, president of the International Academy of Emerging Markets and Forbes Magazine contributor, stated in a recent Forbes.com online commentary, "The role of emerging market countries in the world is now difficult to overestimate. The territory of these countries occupies 46% of the earth's surface, with 68% of the global population. These economies account for nearly half of the gross world product, and attracted about $600 billion of foreign direct investment." With the U.S. market becoming more and more competitive, those organizations with the funding, commitment and risk tolerance to invest in emerging economies are reaping the benefits and learning about the challenges.

European organizers are well ahead of their U.S. counterparts. The London-based Tarsus Group announced earlier this year that it purchased a fifty percent interest in Hubei Hope Exhibition, a company that organizes shows primarily in Central and Western China. The purchase is significant because it is the first move by a Western company into the secondary markets outside of the principal exhibition cities of Beijing, Shanghai and Guangzhou. Tarsus already organizes a number of shows in Shanghai including LabelExpo, which is part of a global series of shows that Tarsus owns and produces in Europe, the Americas and Asia.

The Washington-based National Association of Broadcasters (NAB) is actively pursuing opportunities in a number of emerging markets including Russia, China, India and Brazil. A media tour in February to recruit attendees, exhibitors and media representatives from India for NAB's U.S. show, yielded favorable results. Margaret Cassilly, vice president international operations at NAB, explains that her organization's interest in India is driven by the industry she serves. "NAB is attracted by electronic media and the new platforms for the distribution of content. India makes more platforms for content than anyone else. It is the fastest growing electronic media market in the world. Since NAB is the global launch pad for electronic media products and services for the world, it behooves NAB to be in there," she says.

As an industry veteran and specialist in international markets, Cassilly is a firm believer in the opportunity that emerging markets offer. "There are more opportunities for U.S. companies to expand in emerging markets. Developed countries are already infiltrated with competitors," she explains. Groups on the leading edge of technology such as NAB are attracted to the evolutionary forces of expanding economies. "In emerging markets," says Cassilly, "technology will often 'leapfrog' to the next generation such as the wide scale adoption of wireless technology in China, for example."

A few other U.S.-based trade associations are organizing events in emerging markets as well as the U.S. For example, InfoComm International, the Fairfax, VA-based association serving the global audio visual market, has been active in emerging markets since 1995 with its first efforts in Singapore. The association will produce InfoComm India in March followed by InfoComm China in November of 2009, in addition to its annual mega-show in the U.S. Its international events have not impacted international attendance at the large U.S. show, where the number of attendees from emerging markets has remained relatively consistent. Jason McGraw, senior vice president of expositions, explains that promoting to attendees in emerging markets is challenging and expensive. "If you are only getting 30 or 50 people from a particular country, you have to spend a lot to get those people. On a percentage basis it's not the best investment," he says.

Some independent trade show companies have ventured into emerging markets over the years. For example, EJ Krause and Associates of Bethesda, MD, an independent exhibition organizer, has developed its own show brands in China, India, Mexico and Russia. Westport, CT-based PWN Exhibicon International, an organizer and industry consultancy, has organized exhibitions and U.S. exhibitor participation in countries as diverse as Cuba and Libya this decade.

Few U.S. suppliers have ventured into the uncertain waters of emerging markets. One notable exception is the Birmingham Alabama-based American Exhibition Services (AES). Famous for its literature carousels and other products and services for pre- and post-show exhibitor marketing programs, AES introduced its marquee product to China approximately 3 years ago. Their experience has been a reality check according to CEO Allen Brady. Forgoing a partnership arrangement with a Chinese company, AES declared itself a Wholly Owned Foreign Enterprise complete with its own office and staff in Hong Kong. AES's Chinese staff trained in Birmingham to learn all the aspects of the business as well as Western business concepts.

Despite extensive research and preparation, AES faced some difficult geographic and cultural obstacles. "There are a multitude of different issues that one could experience in Northern China that may not exist in Southern China because the country is so large. Most Westerners can't grasp how large it is," says Brady. In addition, the rest of Asia is drastically different from China, he explains. "Even Singapore and Hong Kong are markets unto themselves and it is not necessarily a smooth transfer between cultures and business practices," he adds.

In addition to the geographic challenges, AES faced other hurdles with the Chinese exhibitors. The overall concept of pre- and post-show marketing and the business practices of the typical 10 x 10' Chinese exhibitor are drastically different in China than in the U.S. "The Chinese culture hasn't gotten to the point where they grasp the concept of marketing yet. They understand billboards or bus and taxi signage, but their concept of comprehensive [trade show] marketing is not nearly as sophisticated," says Brady. As a result, AES has begun focusing on international pavilions (particularly U.S. pavilions) in multi-national business-to-business shows in China.

As with most early adopters, AES has learned some important lessons about business and culture in emerging markets. Rather than pulling out, however, they have renewed their efforts to educate and create potential customers. AES's Brady remains optimistic. "The biggest lesson learned is that the Chinese economy is very new. They are experiencing incredible growth. As we continue to educate the mainland Chinese exhibitor, they will want to experience all of the benefits of pre, at and post show marketing," he says. Meanwhile, AES's U.S. sales have already surpassed last year's total revenue numbers. Brady hopes that some of that good news will soon be coming from China.

Market Manipulation, or Just Business as Usual?
by Knowledge@Wharton

The financial markets are in turmoil. Inflation is picking up. Home prices are falling. More and more companies are laying off workers. Oil prices are sky-high. It's getting harder and harder to borrow money. It seems like a nest of conspirators is preying on America. Even Washington is reinforcing the impression with talk of sweeping reforms to the system of economic oversight, including proposals to consolidate some regulatory agencies and dramatically expand the authority of the Federal Reserve. It looks like Congress and the White House now realize the regulators were asleep at the wheel.

Indeed, Ben Stein, a well-known economic commentator, has promoted the notion of market manipulation by hedge funds. In a March 23 New York Times column titled, "Making Sense of a Scared New World," he sums it up this way: "In an otherwise inexplicable financial event, the people who profit from it may be understood to have caused it."

Yet there's no indication of sweeping market manipulation, by hedge funds or anyone else, says Wharton finance professor Jeremy J. Siegel, noting that Stein has failed to offer any proof. "He just believes that because one set of securities is under-priced, it's got to be manipulation and it's got to be the hedge funds."

While several Wharton experts say powerful players can briefly dominate slices of the financial market, making prices rise or fall at will, they dismissed the notion of a grand, prolonged market manipulation. Instead, instances of proven market manipulation tend to be very narrow. "Pump and dump" operations, for example, use teams of salespeople to convince naïve investors to buy stocks of companies so small and obscure that just a handful of trades can make prices soar. But these con artists focus on one stock at a time, not the entire market.

Perhaps the biggest known market manipulation of recent years was in the California electricity market in 2000 and 2001. There, companies such as Enron were able to exploit the state's peculiar partial-deregulation rules to sell power at inflated prices. But, again, this was a relatively short-term scheme focused on just one market.

According to Wharton finance professor Richard Marston, there's a difference between deliberate market manipulation and speculation. Speculators often share the same view, driving prices to extremes. "I don't believe that supply and demand calls for $100-a-barrel oil," he says, attributing part of today's high oil price to speculation. But speculators have always been in the markets, he adds. "It's not some kind of conspiracy, where a bunch of hedge funds got together and said, 'Let's drive the price up.'"

Wharton finance professor Marshall E. Blume argues that there was indeed fraud in the mortgage industry. Mortgage brokers conned borrowers into taking on high-risk loans, and appraisers provided inflated home valuations to justify big mortgages, helping to inflate home prices. Also, ratings agencies failed to flag the risks inherent in securities backed by risky mortgages, he says. But while some of the companies and individuals involved in these activities should be prosecuted for fraud, their role does not constitute the kind of extensive market manipulation Stein describes, according to Blume.

Hidden Surprises

Instead, the biggest economic factor today is a return to normal after a period of excess, when the credit markets foolishly ignored risk, says Marston, adding that there is no mystery to this process. "I don't think it was a market failure. There are a lot of new securities that we haven't seen stressed before.... There were hidden surprises in the fixed-income market that people didn't rationally take into account because people didn't understand them.... I don't think the market as a whole is irrational."

Stein, who did not respond to requests for an interview for this article, argues in the Times that the real economy is not in such bad shape. Unemployment, though rising somewhat, is lower than usual in recessions, he says, while corporate profits are "high by historical standards" and agricultural products, mining, refining and most U.S. exports are "startlingly strong."

There is, however, "a serious disconnect when we move over to the world of the financial markets, where chaos reigns," Stein writes, adding that many events simply cannot be explained by fundamental market forces. The "havoc" in the markets for securities based on subprime mortgages far exceeds the actual losses on those loans, he says. The municipal bond market and markets for short-term municipal and corporate "auction" securities are also in havoc, even though there have been no notable defaults.

Losses in various types of securities are nothing new, according to Stein, who points to the tech-stock collapse early in the decade and the junk bond collapse years earlier. "The new part is the hedge funds and the changing of Wall Street from a financing entity to a market manipulation entity," Stein writes, concluding that "...[Hedge funds] have so much money and so much selling power that they can do what capitalists really want and love to do: to make money not by betting on the markets, but by controlling the markets, by putting so much sell side (and occasionally buy side) firepower in play that they know they will move the markets. This takes all the annoying uncertainty out of it.... Once the process starts, it's like shooting fish in a barrel."

According to this view, hedge funds can clean up by betting on falling prices. They can, for example, borrow vast amounts of stock and sell them at current prices, causing an excess supply that drives prices down. Then the funds buy the shares at the lower price to repay their lenders, profiting on the difference between the sales and purchase prices. Similar strategies use stock options and other stock and fixed-income derivatives.

While short sales are a legal and common way to bet on the prospects of falling prices, it is illegal to conduct a "bear raid," where the stock-price manipulation is intentional and often accompanied by the spreading of false rumors.

Because hedge funds are secretive and report results only voluntarily, it is hard to know just what all of them are doing. Surveys conducted by Chicago-based Hedge Fund Research show the average hedge fund returned nearly 10% in 2007, compared to 5.5% for the Standard & Poor's 500 index of big U.S. stocks. This year, the hedge funds lost about 0.5% through the end of February, while stocks were down just over 9%.

HFR's Short Bias Index, which tracks hedge funds using short selling and similar strategies that profit when prices fall, returned about 4.7% in 2007, trailing the S&P 500. But it was up more than 6% this year through February, beating the stock index by 15 percentage points.

However, funds that specialize in short sales make up only a tiny slice of the hedge fund market, holding about $5.4 billion in assets at the end of 2007, compared to $1.87 trillion in assets for all hedge funds. Mutual funds, which are not allowed to engage in short sales, have about $11.7 trillion in assets. "It is possible for hedge funds with their large amount of money to temporarily disrupt the market," says Blume. "However, it is unlikely that hedge funds have sufficient funds to cause the major disruptions we're having in the housing market."

That disruption, which was the trigger for much of the trouble that followed in other credit markets and the broad economy, is caused by fairly obvious factors rather than hidden forces, he says. Eager home buyers with access to low-interest loans that required little or no down payment bid up housing prices in the middle years of the decade. As interest rates subsequently rose to normal levels, many buyers couldn't afford the higher payments on their adjustable-rate loans, and more and more of them started falling behind in payments. Investors who bought securities based on those loans worried they would not get the payments they had been promised, so those securities lost value. "We're unwinding an excessive investment in housing," Blume notes.

Lenders were also throwing cheap money at other borrowers, such as corporations, with loose requirements for collateral or other repayment guarantees, he adds. "We actually had an excessive amount of credit across all segments of the markets." Now there is simply a corresponding pullback, typical after any period of overdoing it.

Avoiding the Poisoned Jug

Although Stein is correct that there have not been large numbers of defaults among bonds and other credit-related securities, investors don't know where defaults might strike, Marston says. That has made them leery of all credit securities, causing demand -- and therefore prices -- to fall. He cited one observer who correctly likened this to a situation in which one of 100 gallon jugs of drinking water is thought to be poisoned. No one wants any of those jugs.

The situation was aggravated, according to Blume, by the market's hunger for high-quality debt. Some institutional investors are permitted to invest only in debt securities with top ratings. To produce more of those, the firms that create securities took bundles of lower-quality debt, such as subprime mortgages, and sliced them into segments of varying qualities.

The top-rated slices had first rights to homeowners' monthly payments, making them relatively safe. But these were matched by other slices that would be the first to suffer if homeowners fell behind, making these securities very risky. As defaults rose, these riskier slices plummeted in value, and nervous investors then began to shun the safer slices as well, worried that they, too, might be riskier than was first thought.

The swings in investor sentiment can be tracked by comparing interest rates of risky high-yield corporate bonds and safe U.S. Treasury bonds, Marston says. Last summer, yields on high-yield, or "junk" bonds were only about 2.4 percentage points higher than those of comparable Treasuries, an unusually low spread that means investors did not consider junk bonds terribly risky. "Smart people in the market were assessing credit risk as being very small."

This sanguine attitude has changed -- the spread is currently more than eight percentage points, which is more typical. Part of the reason is that junk bonds are now considered riskier, but a "flight to safety" has also driven Treasury yields down, Marston notes. All of this is a normal and understandable reaction as investors learn they have underestimated risks, he says, dismissing the market-manipulation theory. "I bristle at the idea."

No one knows exactly how hedge funds may be influencing the market, since they are very secretive about their holdings and investment strategies. But Blume suggests it is unlikely that hedge funds would act in unison for a long period. "There might be certain volatility caused by people following similar investment strategies, but it will wash out in the fairly short term."

One reason is that short sellers aren't simply dumping securities into a hole. For every short seller unloading securities that he expects to fall in price, there must be a buyer who's betting the price will rise. If everyone becomes pessimistic, short sellers will find no buyers, and they will lose any ability they had to manipulate prices by dumping securities.

Ultimately, adds Siegel, the short sellers must themselves become buyers because they don't make money until they purchase shares to replace the ones they borrowed and sold. At some point, he says, short sellers "covering" their bets with purchases will restore demand -- and shore up prices.

The recent turmoil in the financial markets is scary because it was triggered by something new and poorly understood -- the collapse of subprime mortgages. But it's not surprising for moods to turn sour when the good times end, Siegel notes. A few years ago, the trigger was the collapse of the tech-stock boom. This time, it's the end of the easy-money era and housing bubble. "Swings of sentiment," Siegel adds, "have happened forever."

Political Advocacy: Issues and Tactics
by Michelle Bruno

Trade associations, special interest groups and to some extent, charitable organizations, often adopt political agendas to support the interests of their members and constituents. They bring their ideas and issues to the attention of legislators and regulators through various initiatives including legislative days, grass roots campaigns and political action committees. They engage in these activities as a benefit for members and because they can achieve more as a group with pooled resources and common goals than individuals can achieve on their own. The issues that these groups choose to address and the political tactics they employ depend on a number of factors. For the large and well funded groups, multi-faceted, highly organized advocacy campaigns are possible and warranted. For others, grass roots activities represent the full extent of their political repertoire.

A large part of political advocacy efforts are educational. Vince Alberta, vice president of public affairs for the Las Vegas Convention and Visitors Authority (LVCVA) has spearheaded efforts to educate federal lawmakers on the impact of tourism on the state of Nevada and the nation. This past February, with the support of Senator Harry Reid (D-Nevada) and others, he helped organize a reception and educational opportunity in Washington, DC designed to “put a face to the name” for congress members and LVCVA leadership. The highly successful gathering provided ample opportunity for LVCVA administrators to disseminate information to congress members on everything from the impact of tourism, job creation and tax revenues to the need for more liberal visa requirements and the loosening of travel restrictions for foreign visitors. Alberta has already begun planning a similar event in 2009.

Another weapon in the political advocacy arsenal is the funding of political candidates. As the result of the Bipartisan Campaign Reform Act of 2002, also known as the McCain Feingold Act, some non-profit groups such as the National Cattleman’s Beef Association (NCBA) have turned to Political Action Committees (PACs) as a way to fund the election campaigns of specific candidates who support their viewpoints. Quin Giambrone, associate director of PAC and revenue development for NCBA, explains that although their PAC is “medium-sized” in comparison to similar organizations, it is an important vehicle for NCBA members to have influence and gain respect from legislators on the issues that matter to them. “These are real people with real businesses and real concerns,” she says.

Providing access to elected officials is an important role for special interest groups. NCBA hosts legislative conferences in Washington that give association members an opportunity to meet with members of Congress face to face. They sponsor grass roots campaigns to rally members to contact legislators when specific pieces of legislation are up for a vote and they offer access to software called “Capwiz XC” that provides advocates with a platform for sending letters and emails to legislators. Letting members know that Congress is available and providing them with the tools and information they need to make a connection, is an important objective for NCBA according to Giambrone.

The International Association for Exhibitions and Events (IAEE) has developed its own political agenda to address critical issues that require legislative remedies. Agenda items include travel and transportation by air, surface and rail, including the disrepair of the nation’s rail system, the state of the airline industry, visas for foreign visitors and the need for the expeditious transport of cargo. The lack of a comprehensive national energy policy adds complexity to the problems. IAEE President Steven Hacker explains the dilemma our industry faces. “As a nation we continue to rely upon automobiles and airplanes to get us where we need to go. That model worked fine when gasoline and jet fuel were cheap. Now we must focus on developing efficient and effective mass transportation systems that are not totally reliant on air transportation,” says Hacker. The enormity of such issues has compelled IAEE to combine efforts with such organizations as the Travel Industry Association (TIA) and others that lobby Washington regularly.

There is no “one size fits all” approach for political advocacy. For organizations that can afford it, professional lobbyists make the most sense for bringing complex issues to the attention of policymakers. LVCVA’s Vince Alberta advises groups unsure of their commitment or unschooled in the ways of Washington to start small and build from there. His organization’s efforts began just three years ago. IAEE’s Hacker believes that many people would be surprised to learn that lawmakers are actually concerned about the issues that affect their constituents. After all, “that’s how they win elections,” he adds.

Tactics for Changing Minds

by Lauren Keller Johnson

You’ve got an exciting new idea that you feel certain will generate huge company benefits. Perhaps it’s a breakthrough product line or an innovative way to improve performance. The advantages of your idea are crystal clear, but when you present it to direct reports, peers, and superiors, you meet with resistance. Some people question its potential. Others express concerns about the costs or time involved. Still others initially seem intrigued by your proposal but fail to do anything with it afterward. You wonder how you’ll garner the coordinated teamwork required to put your idea into action.

As Howard Gardner, author of ***Changing Minds: The Art and Science of Changing Our Own and Other People’s Minds*** (Harvard Business School Press, 2004), explains, we find it increasingly difficult to open ourselves up to new ideas as we age. Our worldviews ossify, making us less inclined to consider something radically different. Resistance intensifies if we experience unpleasantness after embracing a new idea. For instance, a previous attempt to adopt a new customer service strategy fails, so managers and employees shy away from similar proposals later. For these reasons, leaders seeking support for their ideas can’t rely on a single method of persuasion; they need to employ tactics carefully tailored to affect disparate people.

Say it often and in many ways

In ***Changing Minds***, Gardner introduces seven levers for breaking through resistance to new ideas (see sidebar). Some of these levers—such as providing convincing data and earning listeners’ trust—are familiar to most persuaders. But several seem far less intuitive, even to seasoned communicators. In particular, Gardner says, “many people mistakenly assume that delivering their message just once will make them convincing.” Yet no matter how good your idea or compelling your presentation is, “you need to send your message many times to reinforce it in your listeners’ minds.”

Thus Gardner advocates what he calls ***representational re-descriptions*** —delivering your proposal in a variety of formats. Such formats may include engaging stories, startling numerical information, graphic depictions such as charts or cartoons, humor, demonstrations and simulations, vivid descriptions of enticing or disturbing scenarios, and, most important, embodying the message in your own behavior. By delivering your message through a mix of formats, Gardner maintains, “you increase the chances that your audience will understand your idea.” And the deeper your listeners’ understanding, the greater their ability to let go of firmly entrenched notions and embrace new ones.

Using representational re-descriptions may seem straightforward. But to get the most from them, managers must apply them artfully.

Lead to a familiar problem
Imagine that you’ve just attended a conference where you learned of an intriguing new technology that many organizations in your industry have adopted. You believe that, to remain competitive, your company needs to adopt the technology. You also know that this initiative would be costly at first, so you anticipate significant resistance.

How might you use representational re-descriptions to persuade managers in your organization to consider the technology? Gardner advises against simply cobbling together a blend of statistics, stories, and other formats. Instead, frame your mix of message formats in neutral terms that help your audience ease into evaluating a legitimate, familiar problem objectively. For instance, say something like, “Remember how we lost those three customers last quarter because of order-processing errors? I have some insights about how that may have happened.” Then tell the story of what went wrong.
This narrative structure, Gardner says, is far more effective than starting off with a description of how you attended the conference and what you learned there—which is akin to saying, “I know something you don’t know.”

Leverage the power of contrast
Contrasting scenarios can also prove powerfully convincing. Returning to the conference example, Gardner says, you might ask your audience to identify the company’s current beliefs about major change. Perhaps managers and employees tend to favor the status quo, owing to previous disasters that came with implementation of large-scale change. Are people in effect telling themselves and one another in subtle ways, “We should avoid flash-in-the-pan solutions to our problems”?
Now challenge your listeners to imagine new beliefs that contrast sharply with the existing views. Such devil’s advocate responses might include “This new technology is the wave of the future,” “We’ll be out of business if we don’t stay current,” or “We need to do whatever it takes to stay ahead of our competitors.” By inviting audience members to create this sense of contrast themselves, you help them move from old beliefs to new ones.

Know audience intelligence
In ***Changing Minds***, Gardner describes the numerous ways in which human intelligence manifests itself. These include linguistic intelligence (having a strong facility with spoken and written language), logical-mathematical intelligence (understanding causal relationships and numerical information), spatial intelligence (forming and manipulating spatial representations in one’s mind), bodily-kinesthetic intelligence (solving problems using whole body or fine motor skills), and interpersonal intelligence (working effectively with and influencing others).

To select the right blend of representational re-descriptions to employ, seek to discern the types of intelligence characterizing your intended audience members. This takes keen observation. Ask yourself: Who seems to understand customers’ needs best? Who learns most by reading about or discussing new ideas? Who appears highly responsive to factual and numerical information? Who can’t resist playing with product demonstrations?

You can also learn more about your audience's intelligence through informal focus groups. Ask participants how they prefer to solve problems and learn. Invite them to describe incidents in which they didn't understand a new idea that someone else presented—and to explain why the communication failed. "You can learn a lot from things that didn't work with a particular person or audience," Gardner says. Then adapt your delivery accordingly.

For example, suppose you're advocating a new customer service initiative, and some audience members excel at interpersonal intelligence. In this case, you might challenge your listeners to define key customers' attitudes toward your company—to help them begin seeing the urgent need for the initiative. For bodily-kinesthetically intelligent audience members, invite them to put themselves in the place of product end users, so they can experience user-interface problems firsthand. For people with strong logical-mathematical intelligence, lay out the consequences of not implementing the initiative. Compare that dire scenario with the rosier reality—including hardcore profitability numbers—that could be had if the company improved its customer service.

Draw on your resources

None of us is equally comfortable with or skilled at all the representational redescription formats available for communicating ideas. Get help with those formats in which you're weakest. For instance, Gardner recommends asking a colleague who is especially good at storytelling to present your idea at a department or team meeting. Ask another who's a strong writer to craft an article for the company newsletter.

Your goal? To present that promising idea with enough frequency and variety that others will understand it, remember it, and—most important— embrace it.

This article appeared in the June 2004 issue of Harvard Management Update.

Seven levers for changing minds

In ***Changing Minds: The Art and Science of Changing Our Own and Other People's Minds*** (Harvard Business School Press, 2004), Howard Gardner discusses seven levers for persuading others to embrace new ideas:

1. Reason:

You present all relevant considerations of an idea, including its pros and cons.

2. Research:

You provide numerical and other information about your idea's ramifications, or data relevant to your idea.

3. Resonance:

You and your ideas are convincing to your listener because of your track record, effective presentation, and sense of your audience.

4. Representational re-descriptions:

You deliver your message in a variety of formats, including stories, statistics, and graphics.

5. Resources and rewards:

You draw on resources to demonstrate the value of your idea and provide incentives to adopt your idea.

6. Real-world events:

You monitor events in the world on a daily basis and, whenever possible, draw on them to support your idea.

7. Resistances:

You devote considerable energy to identifying the principal resistances to your ideas (both conscious and unconscious resistances) and try to defuse them directly and implicitly.