

## Realizing the Promise of New Geographic Markets



### April 2013:

How much does geography matter any more? As the world becomes increasingly urbanized and consumers become more connected across borders, as well as new geographies, there are other high growth markets to consider, whether cities, regions, or communities.

In our October 2012 briefing we talked about the rise of the BRICS and beyond and how this is giving rise to new forms of competition – as well as new competitors hungry for growth, and countless innovations. Home market competitors from BRICS markets are extending their presence on the global stage, particularly into other high growth markets, leveraging strong bases in their domestic markets. The mindset of many of these players is focused on aggressive expansion and investment, in contrast to the consolidation and risk management mindsets of many traditional, developed markets players.

But it's not just the high growth geographic markets that business needs to focus on – the developed world will still be home to a significant amount of the world's consumption for the foreseeable future. One in particular, the U.S., is even being touted as the next "emerging" market! What's going on?

In this briefing we take a look at some of these "new geographic" markets – some aren't geographic, some aren't new, but all will have a bigger role in future – and what it might take to realize the promise of growth within them.

### Does geography matter any more?

We live in a global village and with some business commentators contending that the world is getting "smaller" and "flatter". However, the world is not that flat, nor that small – it is filled with bumps and curves making it difficult at times to see what lies ahead. The digital revolution has brought down the cost of communications while increasing our ability to move from one place to another in no time. The connected world has reshaped our lives and how we conduct business. However while we communicate and collaborate more easily than ever, nations can – and do – still segregate and protect themselves, whether through legislation, border controls, economic and political systems or culture. In a global village one would think that cultural differences and geographic borders shouldn't matter but they still do. How global is the global village really?

### **In Action!**

**Cross-border online shopping:** Technology advances offer new ways to access information about products and services, as well as to buy them. E-commerce continues to accelerate: With a click of the mouse consumers can shop around the world, across geographic borders. Or can they? In fact, it is not as easy as it sounds. Online shoppers often get trapped in merchant, export and import restrictions, e.g. licensing agreements, duty and tax rates, and regulations on the movement of restricted items, whether for safety or copyright reasons. Then there are obstacles such as delivery services, which may be costly or simply not easily available cross-border. Together these hurdles are making cross-border online shopping a failure. In Europe only 9% of consumers buy online from other countries and only four out of ten cross-border deals work out. As a result, the EU has drafted a Common European Sales law to boost cross-border e-trade, cut costs and give customers more choice. The JURI Committee is planning to vote on the report in the coming months. (Sources: [Euronews](#) and [Neweurope](#))

**Diasporas – the untapped potential?** 3.1% of the world's population is migrants and if you put them all together in one country, it would be the world's fifth most populous country with 214 million people. (Source: [International Organization for Migration](#)). According to [Gallup](#) these migrants are not alone. Around 13% of the world's adults – or about 630 million people – say they would like to leave their country and move somewhere else permanently, with the U.S. being the most desired destination. Diasporas have always been a strong economic force. As travel becomes cheaper and easier, these networks are now getting larger and more connected helping spreading knowledge, wealth and product demand, as well as opening doors by connecting people and businesses globally. Many countries and companies, however, do not recognize the potential of the diaspora network and how it can contribute to economic progress and business growth. How can your organization tap into the potential of diasporas?

### **Look Out For...**

**Towards more regional trade?** The economic crisis drove up trade barriers around the world to protect national interests and domestic industries. Now, there is an increasing recognition that some of these restrictions must be removed to promote a freer flow of products and services to support global trade growth – not only between individual nations but also on a regional level. Last month the EU and the U.S agreed to launch negotiations on what could be the world's biggest free trade deal. There are also emerging signs that trade barriers are being removed on a regional level, contributing to the stabilization of commodity prices and decreasing transport time and costs. One example of such success is Mozambique which freely allows both imports and exports of maize. It has helped stabilize prices in the capital Maputo compared to other capital cities in the region. (Sources: [World Bank](#) and [White House](#)). Beyond the impact of restrictions, regional trade will also get a boost from shifting patterns of economic growth and consumption, which will drive greater trade within high growth regions such as Asia. How can your company benefit from regional trade and how can you help loosen up restrictions?

**Cities as wealth generators:** Rapid urbanization across the globe is making cities increasingly important global generators of growth – and it is the emerging market cities that will win the race. McKinsey Quarterly's City 600 index suggests that developed market cities will create 17% of global GDP growth in 2025, down from 36% in 2010 while emerging market cities will create 47%, up from 18% in 2010. Overall, cities could inject up to US\$ 30 trillion into the global economy by 2025. Despite these forecasts, few companies focus on the growth potential of cities. According to a recent survey from McKinsey Quarterly fewer than one in five executives makes location decisions at a city level rather than a country level (Source: [McKinsey](#))

Quarterly). If your company is still focusing on a country level strategy it may be time to explore the potential of cities.

## Beyond the BRICS

We talked about the BRICS and Beyond markets recently in our [October 2012 briefing](#) so let's focus a little more on some of the Beyond markets here. Investors, consultants, development agencies and businesses each have their own opinions about which markets – and why those – will be the next most important growth markets. Some of these opinions converge, others do not. One of the most widely publicized lists is probably the N-11, coined by Goldman Sachs' Jim O'Neill, who gave us the acronyms BRIC (Brazil, Russia, India, China) and MIST (Mexico, Indonesia, South Korea, Turkey). Our [GlobalTrends](#) analysis suggests a slightly longer list, based on market size, population and economic growth, income per capita, global focus/influence and resource strength.

However, whichever list of "Beyond" markets you favour, the point is that you need to look beyond the BRICS. In the long term, the BRICS markets may show slower growth, although they will obviously continue to be important in terms of sheer size. In the short term, competition in the BRICS is intense – and may not offer the potential of less crowded markets. Of course, careful research is critical in order to identify the most promising growth opportunities for your business.

Company	Emerging markets (Beyond BRICS) that are anticipated to offer future growth potential
<a href="#">Goldman Sachs</a>	<b>N-11:</b> Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, Turkey, South Korea and Vietnam.
<a href="#">Ernst &amp; Young</a>	Argentina, Chile, Colombia, Czech Republic, Egypt, Ghana, Indonesia, Kazakhstan, Korea, Malaysia, Mexico, Nigeria, Poland, Qatar, Saudi Arabia, South Africa, Thailand, Turkey, Ukraine, United Arab Emirates, Vietnam (Rapid growth market, BRIC omitted).
<a href="#">Economist Intelligence Unit</a>	<b>CIVETS:</b> Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa.
<a href="#">Yahoo</a>	Turkey, The Philippines, Thailand, Poland, Columbia, South Korea, Nigeria (As part of the BRIC India is omitted here). Rank among the top performers in 2012, and is thought to be breakout nations.
<a href="#">Forbes</a> (Contribution by <a href="#">McKinsey &amp; Company</a> )	Argentina, Colombia, Indonesia, Mexico, Philippines, Poland, South Africa, South Korea, Turkey and Ukraine.
<a href="#">Global Trends</a>	Indonesia, Mexico, Turkey, Iran, South Korea, Egypt, Nigeria, Thailand, Vietnam, Pakistan, Bangladesh, the Philippines and Argentina.

## In Action!

**Nigeria – poor but progressing:** Nigeria has an abundant supply of oil to anchor the economy, a growing population of more than 160 million people and current real GDP growth of 6.4% expected to rise to 7.2% in 2014. Yet it is still a developing country with per capita income barely above the average for Africa despite oil exports of more than US\$700 billion between 1980 and 2010. Its growth potential reaches far beyond oil and resources, with sectors including telecommunications, construction, wholesale and retail trade, hotel and restaurant services, manufacturing and agriculture also driving growth. Already ahead of South Africa in GDP growth, an exercise to rebase Nigeria's GDP, due to report in 2013, is expected to show

that the Nigerian economy is bigger than current IMF figures suggest (based on the last business census in 1990). [Commentators](#) also anticipate that Nigeria will be bigger than South Africa in terms of GDP in the near future. However, the country faces challenges including corruption and poor infrastructure, as well as the divide between the predominantly Muslim north and the Christian south. Resulting conflicts have scared some foreign capital away, and destabilized some regions. (Sources: [African Economic Outlook](#) and [UN](#))

**The Philippines – a democratic model:** For years, the Philippines lagged the economic growth of its Asian neighbors. Today, the country is blooming and the economy is surprising again and again. It grew 6.6% in 2012 and [Bloomberg](#) forecasts that it will be among the 10 fastest growing economies in 2013 and 2014. Why? It has a population of more than 92 million, with a strong English-speaking workforce that makes it easy for international businesses to operate there. It is rich in fertile land, as well as natural resources such as chromite, nickel, copper, coal and oil and it has a strong industrial sector based on electronics and other high-tech components for overseas companies. In late 2012 a preliminary peace agreement with the largest Muslim rebel group was signed, ending a decade-long conflict in the south and opening the way for around US\$1 billion in investment commitments. (Sources: [Bloomberg](#) and [CNBC](#))

**Argentina – once a flying star:** Now in for a hard landing. Argentina is the third largest economy in Latin America with an abundance of natural resources, a well educated population, an export-dominated agricultural sector and a relatively diversified industrial base. According to government data the country had a growth rate of 9.2% in 2010 and 8.9% in 2011, falling to 2.6% in 2012. (Source: IMF). However, political issues could derail its potential. In February 2013, the [IMF board](#) censured Argentina for inaccurate CPI and GDP data reporting, threatening to expel it from IMF and consequently from the G20. President Cristina Kircher's government has stepped up growth-slowing policies, including restrictive trade controls and nationalizing industries such as oil and mining which could potentially send the Argentina economy into a tailspin by deterring foreign investment. (Sources: [Trading Economics](#) and [Financial Content](#))

### **Look Out For...**

**Mexico – poised for growth:** According to World Bank Regional Vice President Hasan Tuluy: "Mexico can indeed find its place among the most advanced economies in the world. In order for that to happen, though, it needs to move from its current mid-income status towards becoming a middle-class society." Mexico is the second largest economy in Latin America, potentially overtaking Brazil by 2022 and increasingly dominated by the private sector. It is a major industrial exporter in basic and high-tech goods and 90% of the trade is under Free Trade agreements (FTAs) with more than 40 countries. While GDP growth is expected to decline slightly to 3.5% this year versus 3.9% in 2012, and [inflation](#) was up more than anticipated in the first quarter of 2013, Mexico's economy has still outperformed that of Brazil for the last two years. Restricting the growth pace for now are some pressing issues, including corruption within the government, vast income inequality, and an ongoing drug conflict. However Mexico is poised to take off as one of the biggest emerging markets growers in the coming years. (Sources: [World Bank](#) and [Trading Economics](#))

**Thailand – threatened by weather and politics:** The Thai economy was sharply hit by the global downturn in 2009 and the devastating flooding of 2011. However, with a population of close to 70 million and GDP growth of 6.4 % in 2012, up from 0.1% 2011, it could be ready to take off, with GDP growth expected to stay in the 2012 range. Thailand's export-dominated economy offers a very attractive destination for Asian manufacturers. In recent years the main sources of growth have been exports of high technology and agricultural products. The challenge for Thailand is whether Prime Minister Yingluck Shinawatra can contain the tensions between city

and countryside that exploded under former Prime Minister Thaksin. In addition, weather related events have proven to be damaging for the Thai economy and must be considered as a potential future threat. (Sources: [Asiancorrespondent](#) and [Trading Economics](#))

**Egypt – bolstered by IMF:** One of the most populous countries in Africa with about 80 million people, Egypt thrived on its tourist industry until the uprising in 2011. The economy has suffered from the turbulent transition, with GDP growth of close to 2% today. While hopes were high that the country would adopt new economic policies after the uprising in 2011, transition is taking time, with the nation still wrapped up in political, social and economic turmoil. However, the GDP growth rate is expected to improve to 6% in 2015 by the [IMF](#). In November 2012, the [IMF](#) and Egypt reached a US\$4.8 billion stand-by arrangement to bolster and unlock the economy. Though potentially facing difficult challenges such as geopolitical risk and global economic conditions, Egypt has the potential to become a global player in the future.

### The U.S. – the next “emerging” market?

The harder the economy is pushed down, the faster it snaps back, according to prominent U.S. economist Milton Friedman. Well, it didn't happen this time – the V-shaped recovery the world and the American people were waiting for did not materialize. The U.S., the world's leading economic superpower, has been on a long, difficult economic journey to recovery even as the world has waited expectantly for this juggernaut of consumption to get back on its feet. Ask any economist, business leader or journalist how things went so wrong and why the economy is taking so long to recover and you will hear a myriad of opinions, from bankers' greed to an out-of-control consumption culture to partisan politics. However, some economists and commentators now think the tide has definitively turned: America is poised for significant growth, despite some headwinds. So just why are they calling the U.S. the next “emerging” market?

#### *In Action!*

**Is the U.S. economy really ready to takeoff?** Unemployment dropped unexpectedly from 7.9% to a four-year low of 7.7% in February 2013, retail sales are picking up, household finances are improving, the vast American service sector has accelerated at the fastest pace in a year, inflation remains low and the housing market is picking up. The financial system is also looking robust with continued low interest rates and the U.S. S&P 500 stock index close to its all-time high (1,565.15 in 2007), while the VIX index of volatility is at lows not seen since before the crisis in 2007. Recently BlackRock Chairman and CEO Larry Fink, citing the health of the nation's banks and its growing energy resources pointed to significant growth ahead. According to Mr. Fink *“Our banks are the best capitalized institutions in the world. The problem for banks going forward is not capital, the problem for banks going forward is making sure they originate enough loans.”* (Sources: [CNBC](#) and [Reuters](#)). Of course, a “normal” recovery has been forecast almost since the crisis began, and the rosy picture painted by the numbers will no doubt be impacted in coming months by federal budget cuts and tax hikes resulting from the drawn-out fiscal cliff negotiations. The Senate may have [passed the first budget in four years](#) on March 23, but this is just the start of more acrimonious battles ahead over U.S. government finances. The worst may be over, but do not expect smooth sailing ahead.

**Reshoring manufacturing:** According to the [Reshoring Initiative](#) 160 American companies have brought back jobs from China, India, Mexico, Taiwan, Philippines and other countries in recent years. Since 2010, 50,000 or about 10% of new American manufacturing jobs have been created through reshoring. Survey data from MIT and MIT Professor David Simchi-Levi suggest that a significant shift is happening in the manufacturing footprint of U.S. companies. While this shift will not “kill” manufacturing in low cost countries, it suggests that we are in the middle of a



transformation from a global to a more regional strategy where China produces for China and perhaps other emerging markets, the U.S. (or Mexico and Latin America) produces for the Americas and Eastern Europe produces for European markets. Examples of companies with U.S. reshoring activity: [GE](#), [Whirlpool](#), [Ford](#), [Caterpillar](#). (Sources: [MIT](#) and [Bridge Michigan](#))

### **Look Out For...**

**Energy independence:** “We are finally poised to control our own energy future,” President [Barack Obama](#) said in his February 2013 State of the Union address. It may be reliant on foreign energy sources today, but by 2030 the U.S. could be energy self-sufficient and in just five years the world’s biggest oil producer. Technology advances in drilling and the recent surge in shale energy production (“tight oil” which is shale oil obtained via fracking and also shale gas) combined with greater energy efficiency could reshape the global energy landscape. (Sources: [ThomasNet.com](#) and [Financial Times](#)). The implications of these shifts are significant, from providing the U.S. with cheap and secure energy sources to underpin a manufacturing renaissance, to redefining global geopolitical relationships. The U.S. could find its status as the world’s economic superpower is prolonged as a result, although it will need to avoid complacency and innovate to stay ahead. Renewable energy initiatives could however suffer as fossil fuels increase their dominance – with negative results for climate change and pollution. One of the biggest questions is how U.S. energy independence and exports will reshape the geopolitical landscape, particularly in the Middle East and with energy-hungry Asia?

**Reshoring innovation:** Reshoring is not just about bringing back manufacturing jobs. It could potentially spur a more innovative and sustainable economy in the U.S. Economists are increasingly building evidence to show that locating researchers and manufacturing workers in close proximity, as well as different manufacturing companies and even multiple industries, can boost innovation. In this environment, workers can exchange ideas not only at work but also outside it over a drink or at the local baseball match. Researchers from [MIT](#) have started the project “[Production in the Innovation Economy](#)” to study the subject. So far the anecdotal evidence from about 200 companies has proved striking, with company after company detailing the advantages of keeping makers and thinkers together. (Source: [New York Times](#))

### **What will it take to realize the promise of new geographic markets?**

Africa comprises more than 50 countries. The area of China is approximately 9,600,000 km<sup>2</sup> (3,700,000 square miles) with a population ranging from extremely poor to extremely rich. Considering a continent or a large country to be one homogenous market can be dangerous. Assumptions that Asian consumers have the same tastes and like the same designs as the Western world or that one product, service or experience is sufficient to meet the needs of all “African” consumers need to be challenged. Understanding the geography of the world’s borders is not enough. To be successful in entering today’s growth markets an essential first step is to understand regional differences and similarities in consumer and customer needs – and to identify promising new “geographic” markets which may not even be bounded by recognized borders. Equally important is the need to understand local economic and political systems – which will shape how you operate – and the local competitive landscape, which may vary not only across borders, but between urban and rural areas and across diasporas. The bottom line: Homework is vital, as is building relationships and ensuring the right portfolio, capabilities and talent are in place.

### **In Action!**

**You are the guest – make friends:** Entering new territory such as the rapidly growing markets we highlight in this briefing means companies are operating outside known turf. Often, the line between government and business is not straightforward with local and national governments

playing a role in setting industrial policies and prioritizing investments. To overcome this barrier, companies must consider the needs and roles of many stakeholders, e.g. government, local communities and the partners with which the company works. One company using this approach is Swedish telecom giant [Ericsson](#). The company has chosen to build strong relationships with the public sector when entering rapidly growing markets to speed up the adoption of their mobile technology. But strong relationships with the local public sector won't do it alone. It is also necessary to have the right skills on the ground, a mix between expats and local managers, and the kind of operational flexibility that does not always come easily to large companies. (Source: [Ernst & Young](#))

**Marketing to a world on the move:** Tourism is one of the world's fastest growing industries. In 2012 the world's economy grew by 2.3% while the global travel and tourism direct contribution grew by a solid 3.2% and is estimated to outgrow the global economy again in 2013 (3.1% vs. 2.4%). But who is spending? One key market is the exploding Chinese middle class, who are in the process also reshaping the luxury goods market. To attract high-spending Chinese tourists businesses are customizing services, products and experiences for Chinese tastes and needs, e.g. in June 2012, Harrods launched a free Chinese-language smartphone app. Hilton Hotels now offers its "[Hilton Huanying](#)" (Mandarin for "welcome") program with tailored assistance, Chinese television channels and special breakfast buffets with congee, dim sum and fried noodles. (Sources: [WTTC](#) and [The Telegraph](#)). Expect more businesses to pick up this trend.

### **Look Out For...**

**Cross-country segmentation:** The growth of worldwide communities of migrants has driven some companies to develop cross-border segmentation strategies to tap into new growth opportunities. For example, Indian consumer goods company [Dabur](#) aims to grow outside India by serving the needs of the expansive Indian diaspora. It has created a customer segment that spans South Asia and the Middle East, based upon similarities in hair-care preferences. Another example is [France Telecom's Orange](#) brand. Analyzing its African and Middle East consumers it discovered a cross-country consumer segment for some of its innovative services such as Bonus Zone (special prices if network traffic is low) and Voice SMS (a short voice messages for the same price as an SMS). The cross-country consumer segmentation included Botswana, Cameroon, Côte d'Ivoire, Egypt and Madagascar. (Source: [Accenture – Fast Forward to Growth](#))

**Made for ....:** While still an emerging trend ever more companies are realizing the need for regional or country-specific branding and customization. It is time to pick up on the Localizian trend (Thanks [Trendwatching](#)) as the race for the Asian emerging consumer class has started. [Korean LG Electronics](#) has been pursuing a dedicated 'micro-localization' strategy in India since 2010 and now has 27 products tailored to the Indian market. In January 2013 Taiwan-based electronics firm [HTC](#) debuted six smartphone models in its first store in Yangon, Myanmar (Burma). All the phones were equipped with specially designed, localized font keyboards in the Burmese language. Chinese brewery [Tsingtao](#) has also adapted its beer bottle for Chengdu consumers. The new bottle is larger – holding two or three pints – allowing for the beer to be poured into small cups and shared over Sichuan food. (Source: [Trendwatching](#))

### **In May: Look out for trends in action on Securing Resources.**

**For more on geographic markets, including what's happening in slower growth markets (think Europe and Japan) look out for our updated Trend Report: Geographic Markets in May.**