Gearing up for growth

Five imperatives for success in emerging markets

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Accenture Institute for High Performance

March 2011

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With a patchy recovery and new investment landscape, companies emerging from the downturn face the dilemma of how to prioritise their investments as they plan for the next phase of growth.

What's certain is that emerging markets will need to take on even greater prominence in the growth plans of multinational companies. Over the next five years, it's expected that emerging markets will account for 62 percent of global growth. As the locus of growth lurches East and South, tomorrow's global industry leaders will increasingly be determined by their success in emerging markets, not developed ones.

Those companies that are quick to re-evaluate the size of the opportunity in emerging markets and organise themselves to seize it will be best placed to compete. Here we lay out five imperatives to help build the insights and capabilities required for success.

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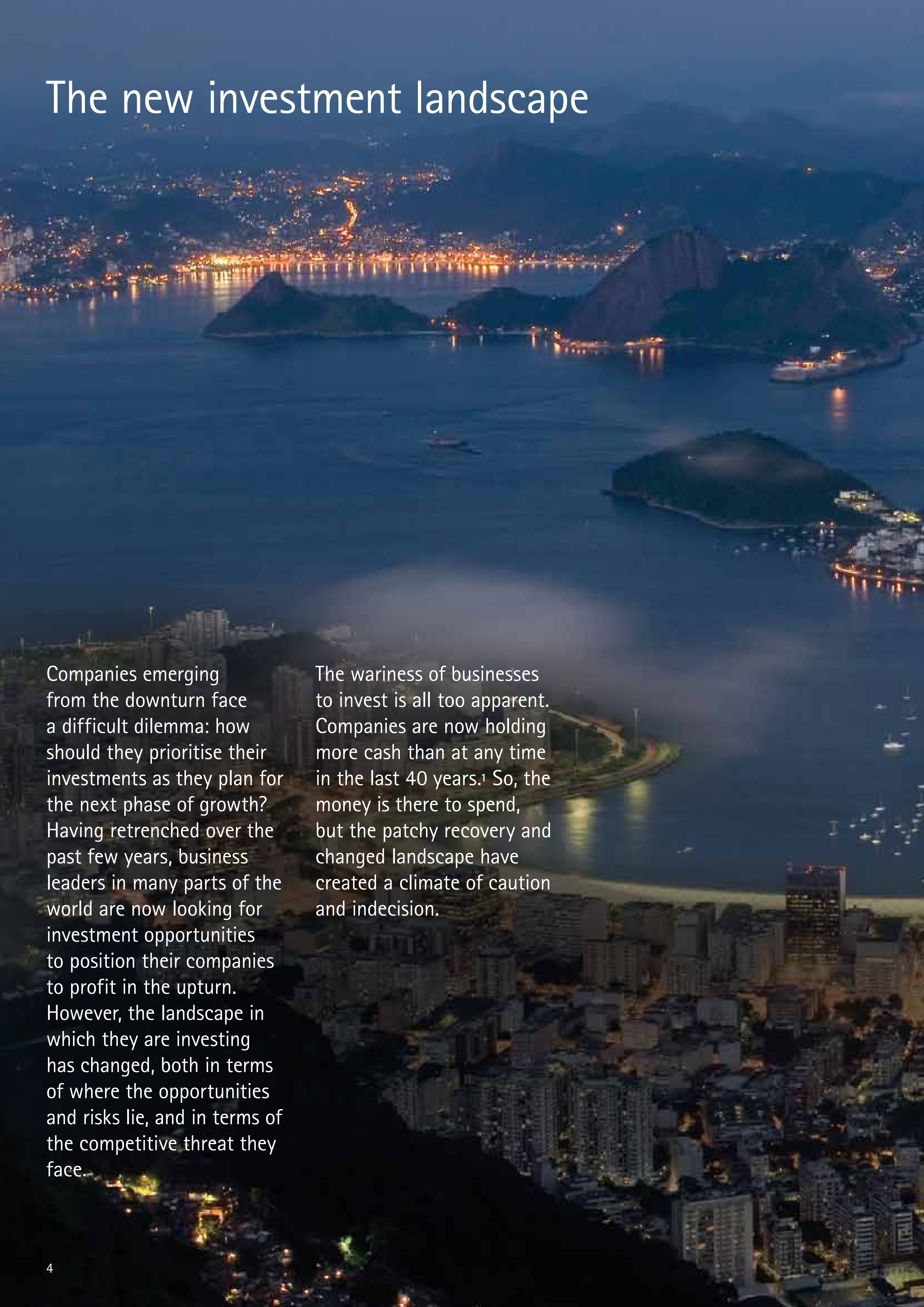
"Blue City" of Jodhpur, India



The new investment landscape

Companies emerging from the downturn face a difficult dilemma: how should they prioritise their investments as they plan for the next phase of growth? Having retrenched over the past few years, business leaders in many parts of the world are now looking for investment opportunities to position their companies to profit in the upturn. However, the landscape in which they are investing has changed, both in terms of where the opportunities and risks lie, and in terms of the competitive threat they face.

The wariness of businesses to invest is all too apparent. Companies are now holding more cash than at any time in the last 40 years.[1] So, the money is there to spend, but the patchy recovery and changed landscape have created a climate of caution and indecision.

Sugarloaf Mountain in Rio de Janeiro, Brazil

A shifting set of opportunities and risks

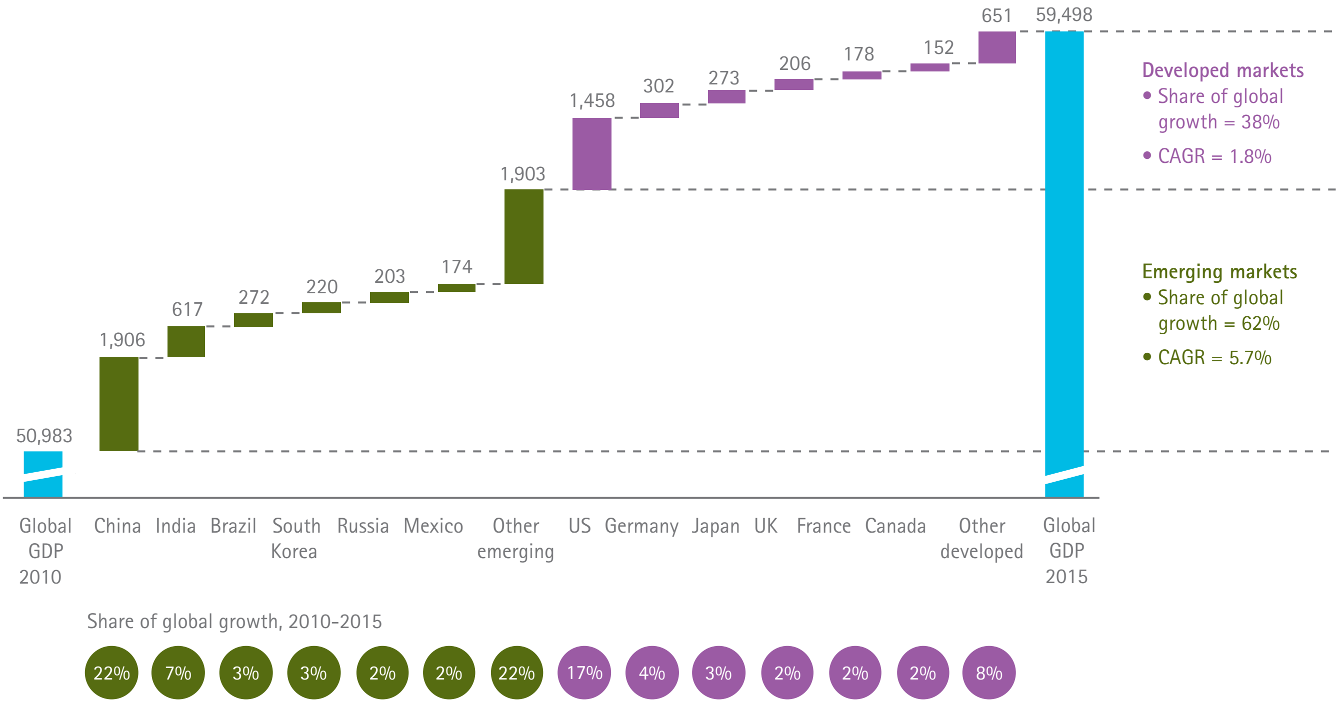
What does the new landscape look like? The stronger performance of emerging markets during the downturn – coupled with a stronger rebound – has widened the performance gap between emerging and developed markets. This has served to accelerate and accentuate the opportunities in emerging markets. Between 2010 and 2015, global economic output is forecast to rise by US$8.5 trillion. Emerging markets are expected to account for US$5.3 trillion of this growth, some 62 percent (see figure 1). This means that emerging markets aren't just growing faster than developed markets; it means that emerging markets will contribute a greater share to the absolute expansion of the global economy than developed markets. China will be a bigger source of growth than the United States, and India will contribute more growth than Germany, Japan, the United Kingdom, France or Canada.

Alongside this acceleration in emerging markets, we are also seeing a broadening of the base of growth. Beyond the BRICs, a range of indicators point to rapid and sustained levels of growth across a range of other economies. For example, Argentina, Chile, Indonesia, the Philippines, Qatar and Vietnam are all expected to grow at over 5 percent in 2011.[2] And Africa – often seen as the final frontier for companies – is finally generating business interest, due to greater stability and faster growth. The broadening base of growth in emerging markets will create opportunities for business far beyond the large BRIC economies that have dominated the emerging market story thus far.

Along with a new set of opportunities, companies making investment decisions must also factor in a markedly different risk landscape. Some countries that once appeared a safe haven for investment now look dicey. Whereas, others that have traditionally been seen as risky, now look a much safer bet. For example, in terms of macroeconomic stability, Indonesia and Uruguay currently have lower risk ratings than Greece or Ireland, a very different picture from before the crisis (see figure 2).

Emerging markets are forecast to contribute 62% of global growth between 2010 and 2015

Figure 1: Breakdown of global GDP growth, 2010-2015
(US$ billions at 2005 prices and market exchange rates)



Source: Economist Intelligence Unit; Accenture analysis

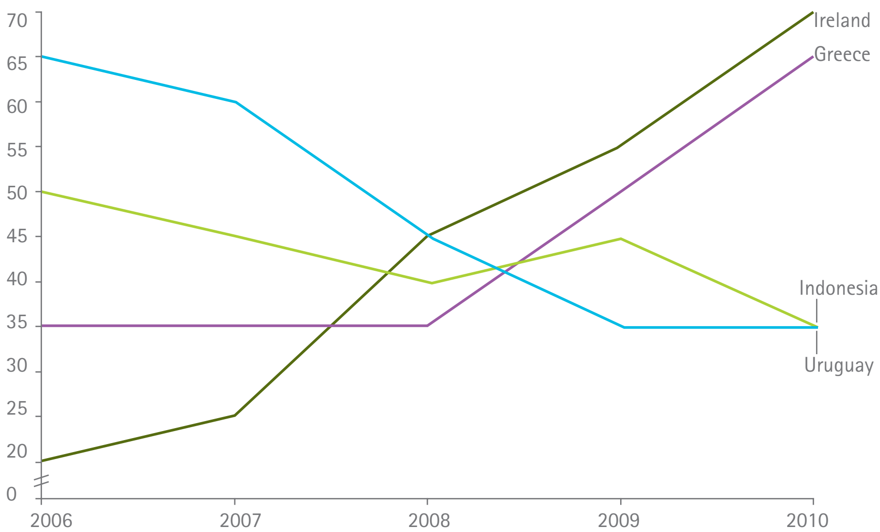
A new era of competition

Together with the shifting opportunities and risks, companies seeking new growth markets also face a very different competitive environment. During the downturn, as growth disappeared in most developed markets and sources of capital dried up, many Western multinationals retreated to focus on their home markets. AIG put a number of its Asian assets up for sale, including AIA, its Asian life-insurance business; General Motors sold off Saab, its Swedish brand; and Royal Bank of Scotland, the UK bank, divested operations in Hong Kong, Indonesia, the Philippines, Singapore, Taiwan and Vietnam. However, it wasn't just troubled financial services providers and automotive companies that halted their international expansion. BHP Billiton was forced to walk away from a multi-billion dollar deal to buy Rio Tinto, and the downturn also forced companies such as Carrefour and Vodafone to re-examine their international portfolio and divest less attractive parts of their business to free up capital.

Contrast this with many emerging-market multinationals who took advantage of the downturn to strengthen their position. Drawing on the resilience of their home markets during the downturn, the number of companies from emerging markets in the Fortune Global 500 reached 95 in 2010, up from 70 in 2007. These companies aren't just winning at home. They are using their strong domestic base as a springboard for global expansion. The value of mergers and acquisitions originating in emerging markets surpassed developed markets for the first time in 2009 (see figure 3). Recent deals include Indian telecoms operator Bharti Airtel's US$10.7 billion purchase of the sub-Saharan assets of Kuwait-based Zain telecom, and the US$1.5 billion takeover of Volvo by Geely, the Chinese automaker.

The downturn has shaken up the global risk landscape

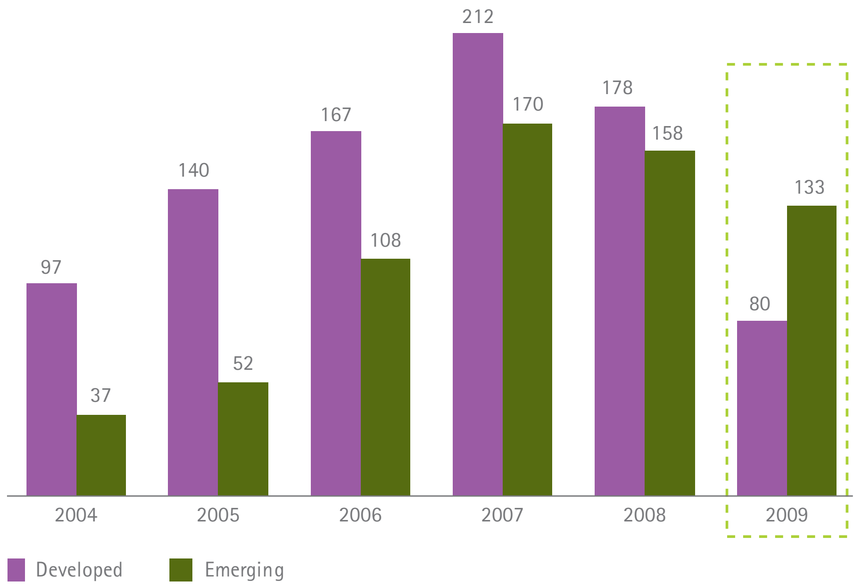
Figure 2: Macroeconomic risk
(risk rating, 0 = low risk, 100 = high risk)



Source: Economist Intelligence Unit; Accenture analysis

M&A originating in emerging markets overtook developed markets for the first time in 2009

Figure 3: Value of outbound M&A deals by country of origin
(US$ billions)



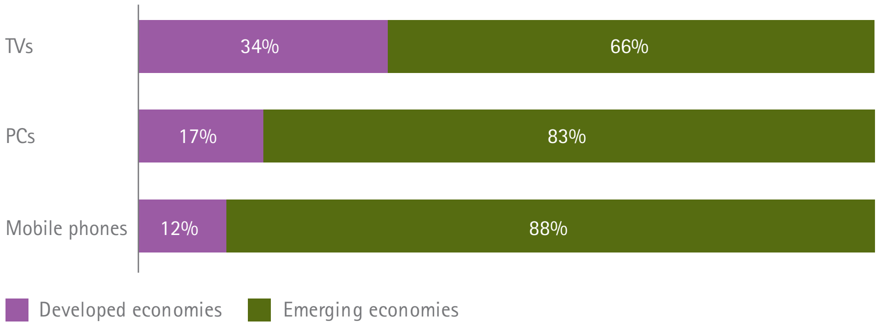
New industry centres of gravity

Taken together, these trends are dramatically reshaping industries at the forefront of globalisation. Take electronics and high-tech (E&HT), for example. With slower growth and more saturated markets in many Western economies, consumers in emerging markets will account for the lion's share of the industry's expansion. For example, emerging markets will account for 88 percent of the growth in mobile phone sales, 83 percent of the expansion in PCs purchased, and 66 percent of additional TV sets sold over the next five years (see figure 4).

The shifting centre of growth in the industry is leading to the emergence of new global market leaders – witness the increasing dominance of Samsung and LG, or the more recent ascent of Acer, HTC, Huawei or Lenovo. China's Huawei, a telecoms-equipment manufacturer, is a perfect example of this new breed of competitor. By serving China Mobile, China Telecom and China Unicom, Huawei has built a strong domestic base in the world's largest telecoms market. Huawei has also invested heavily in research and development to accelerate its shift towards higher-value products and services. As its competitors retrenched during the downturn, Huawei expanded aggressively into international markets, overtaking Nokia Siemens and Alcatel-Lucent to become the industry's second-largest player, with 20 percent of the global market. We saw evidence of Huawei's dramatic rise in November 2009 when it won a landmark contract to build Norway's fourth generation (4G) mobile network – this in the backyard of its major competitors.

Emerging markets will be the main drivers of global growth in the consumption of TVs, PCs and mobile phones over the next five years

Figure 4: Source of growth of consumer electronics products, 2010-2015 (number of units, %)



Source: Economist Intelligence Unit; Accenture analysis

Ignore the shifts at your peril

The E&HT industry provides important lessons for other industries at earlier stages of internationalisation. The first is that tomorrow's high-performing companies will increasingly be determined by their success in emerging markets, not developed ones. Moreover, in some industries, it will be possible to become the global leader just by winning in large emerging markets. Take Alipay, the online payment subsidiary of Alibaba, the online marketplace based in China. The company recently overtook PayPal in terms of its number of registered users and transaction volume – this despite a limited overseas business.

The second lesson is that even domestic players who think they're insulated from what's going on in emerging markets may find their position at home under threat from these emerging global players. This means that companies that aren't proactive in pursuing the opportunities in emerging markets aren't just passing up a valuable source of growth, they're potentially jeopardising their long-term position.

Of course, the opportunity in emerging markets and the competitive threat posed by players from these countries won't evolve as quickly across all industries. However, even in industries that are somewhat sheltered from these trends, the relative attractiveness of emerging markets is likely to have grown. The retail industry is a good example. For some time, retailers were considered to be the laggards of internationalisation. However, saturated markets at home coupled with accelerating demand in emerging markets are forcing large retailers to rapidly expand their footprint in the emerging world. Many US giants that were once satisfied with their sizeable home market are now looking to emerging markets for growth. Best Buy, the consumer electronics retailer, is a good example. It first entered emerging markets in 2007 but has rapidly grown, opening stores in China, Mexico and Turkey.

For companies across industries the message is clear: the new investment landscape necessitates a rethink. Those companies that are quick to re-evaluate the opportunity in emerging markets and organise themselves to seize it will be best placed to capture new sources of growth in the upturn.

Petronas Towers in Kuala Lumpur, Malaysia

Five imperatives for success in emerging markets

How should companies respond to the changed landscape? Executives thinking through their response to these trends can be excused for feeling a little lost. Much of the published literature and research on emerging markets is either too high level to be practical or too detailed to be applicable from one company to the next. The imperatives in this report are designed to be *strategic* but *actionable*. In formulating them we have drawn on years of extensive analysis of macroeconomic and business trends under our multi-polar world research programme, as well as our research programmes and far-reaching client experience on international operating models across industries and around the world.

Our advice: while the decisions that companies make and their international growth journeys will vary, the underlying questions that companies are trying to answer – such as where, when, and how to compete – remain the same. We've identified five imperatives that executives should consider when reassessing the emerging-market opportunity. We believe that these imperatives are valid for companies across industries and stages of internationalisation:

1. Look beneath the headline numbers
2. Understand your shifting S-curve
3. Uncover cross-country segments
4. Use data as a differentiator
5. Compete on risk


Bosphorus Bridge in Istanbul, Turkey

1

Look beneath the headline numbers

The indicators that many companies use to evaluate opportunities are often aggregate measures, such as GDP or average income levels. But these figures conceal a wealth of detail. Companies that go granular in their analysis can outperform the competition through a deeper understanding of where the greatest opportunities lie.

Know where to compete

The vast potential of the emerging markets is clear. However, knowing exactly where to compete and how to prioritise opportunities is perhaps the most difficult question facing companies seeking growth in emerging markets. Such choices take on even greater importance in a period when investment decisions around where to allocate capital and talent continue to be characterised by caution.

The misleading middle class

The task of sizing the opportunity in emerging markets is clouded by hyperbole and misleading statistics. Take the much vaunted "emerging middle class", for example. This segment of consumers is variously estimated at anywhere between 500 million and 2 billion people, and some forecasts suggest it could double in size over the next two decades. However, "middle class" is a loosely defined term and differs across markets. In some cases it's merely the middle of the income distribution, while in others it refers to a level of income. In either case, it's unlikely that a middle-class household in India will be able to afford the deluxe refrigerator, high-end TV, smart-phone and sports utility vehicle of a middle-class family in the United States. The large discrepancies in the numbers and the ambiguity around the definition of "middle class" matter, especially for companies trying to figure out the most attractive markets for their products and services.

Go granular

Our advice in sizing the opportunity in emerging markets: look deeper in deciding where to compete. The aggregate figures that many companies use to evaluate market opportunities – such as GDP or GDP per capita – can be deceptive, concealing a wealth of important detail. For example, while China is by far the biggest emerging economy (more than three times bigger than second-placed India), when looking at the high-income segment, the picture looks very different. In 2010, it's estimated that there were 167,000 households in China with annual incomes greater than US$75,000.[3] This is less than Mexico, Hong Kong, South Korea, Brazil, Singapore and Russia (see figure 5). So if you sell luxury goods, the best opportunities might currently exist outside China. While it's highly likely that China will overtake all of these countries, this example highlights the dangers of relying on headline figures in market-sizing exercises. It also helps to explain why some companies that have rushed into certain markets are surprised at how long it takes to break even, or indeed, why some markets surprise on the upside. By digging beneath the headline numbers, such as examining specific income bands, companies can get a much more accurate picture of the true size and pace of growth of opportunities in emerging markets.

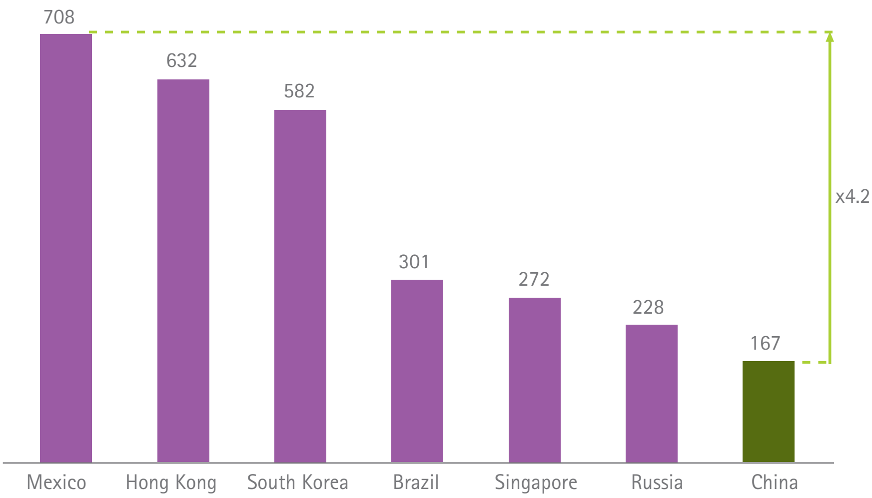
Think regions and cities, not countries and continents

In assessing opportunities and designing strategies for larger emerging markets, companies should think in terms of regions and cities, not countries and continents. In China, for example, there are significant variations across provinces, in terms of income, demographics, religion, language and geography. There is no such thing as a national market, making China more like the European Union than the United States. This translates into a markedly different business environment in China's cities. The market for PCs is a good example. In 2009, there were 109 PCs per 100 people in Shanghai, compared with 39 in Ningxia, a northern region.[4] With the market close to saturation, companies targeting growth in Shanghai are likely to face fiercer competition and slimmer profit margins. The tastes, preferences and attitudes of consumers are also likely to be very different, with Shanghai shoppers demanding the very latest technology and models.

By going granular in their assessment of China and other large emerging markets, companies can get a more accurate picture of where the greatest opportunities lie. And some might be surprised about what they find. Significant opportunities exist in cities that many multinationals won't have even heard of. Take Zhengzhou, the capital of Henan province in China, for example. The Economist Intelligence Unit forecasts that, by 2020, the city will have a bigger economy that Sweden, Hong Kong or Israel.[5]

Despite the overall size of China's economy, several other emerging markets have a greater number of high-income households

Figure 5: Number of households with annual income greater than US$75,000*, 2010
(thousands)



*US$ at 2005 prices and market exchange rates

Source: Economist Intelligence Unit; Accenture analysis

2

Understand your industry's shifting S-curve

Lifecycles of products and services generally follow an S-curve from adoption to maturity. However, accelerating incomes combined with falling prices in many categories mean that demand will take off more quickly and markets may become saturated sooner. With a narrower window of opportunity in emerging markets, companies that employ a wait-and-see strategy may miss the boat.

Know when to enter emerging markets

Timing is critical in emerging markets. Knowing when to enter, when to accelerate growth, and when to look for the next opportunity will go a long way to determining success. Going in too early can prove disastrous, and there are countless examples of companies that have had their fingers burnt. But, equally, there is a huge opportunity cost associated with arriving too late in emerging markets. By allowing competitors a head start, they can amass the scale, relationships and brand loyalty needed to build an unassailable lead.

So when's the best time to enter a particular emerging market? This is a complex question with a huge number of country, industry and company-specific factors that need to be considered. However, understanding the maturity of demand for your product or service is vital to determining the current attractiveness of the market and the headroom for growth.

Understand your S-curve

Demand for most categories of goods and services follow a similar path – what is commonly described as an S-curve. Many factors influence the path of this curve for each category, everything from tastes and preferences to religion and regulation. However, the primary determinant of demand is normally income, particularly in emerging markets where many consumers are purchasing products or services for the first time. Demand growth can be separated into three distinct phases: Emerging, Accelerating and Maturing (see figure 6).

Of course, different products and services have different S-curves. For example, consumption of affordable consumer goods, such as soft-drinks, will take off at much lower levels of income and reach maturity much quicker. On the other hand, demand for luxury products, like designer handbags, doesn't begin to accelerate until average incomes are significantly higher.

Exploit the finite window of opportunity

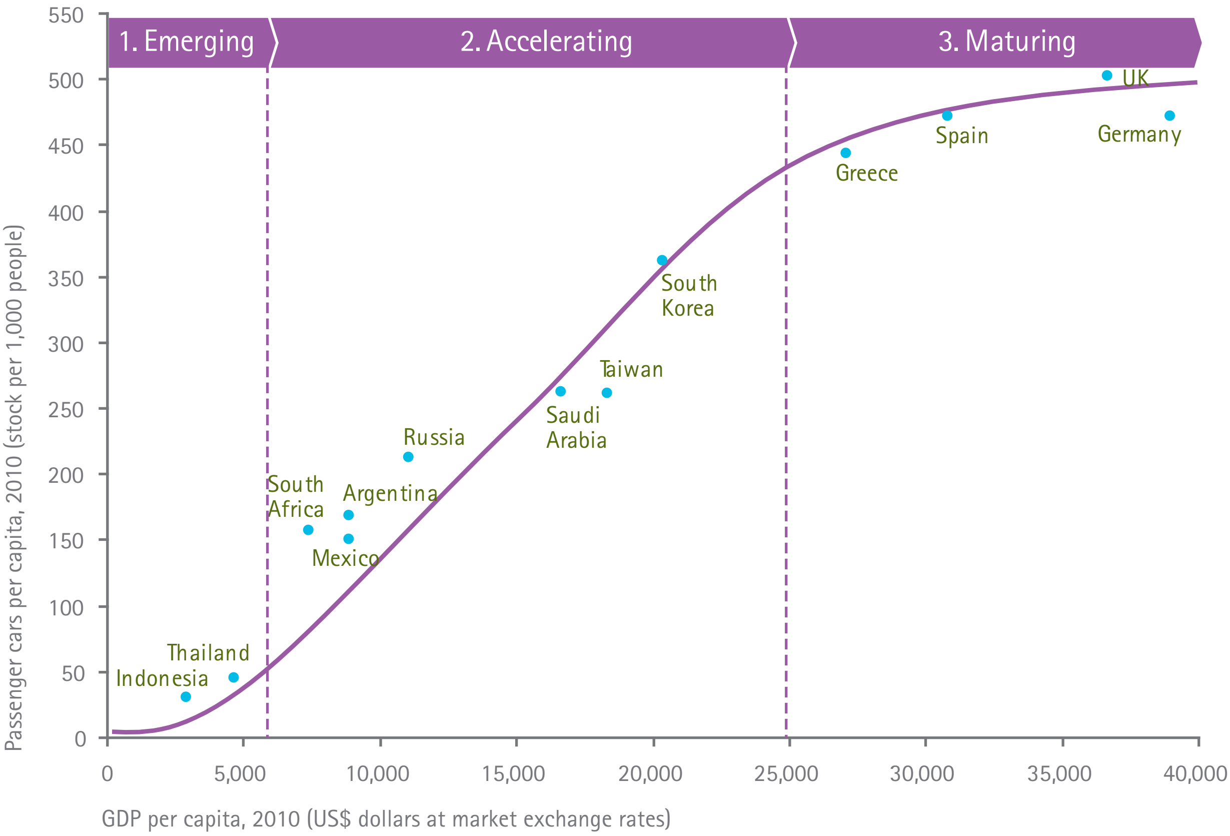
To complicate matters further, S-curves in many industries appear to be shifting. Commoditisation and innovation continue to bring down the cost of products and services. The Tata Nano is a prime example. With a price of less than US$2,500, the Nano will increase the affordability of cars, meaning that companies will see demand at lower levels of income, shifting the S-curve. Expected take-off and saturation points may need to be adjusted, as automakers are likely to find that demand takes off and accelerates sooner than expected (see figure 7).

With a finite and shrinking window of opportunity, companies who adopt a wait-and-see approach may miss out. The optimal entry point is often just before the take-off point, which allows companies to establish a foothold in the market before growth accelerates. However, in industries with a longer growth phase, attractive opportunities may still exist for companies arriving late. Companies already operating in emerging markets must also understand the maturity of their S-curve, to ensure that they are ready to jump to the next growth opportunity, even while reaping the revenues from their mature product or service.

As well as helping companies to decide when to enter emerging markets, industry S-curves can also inform decisions about how to enter emerging markets. For example, when considering a product or service in its Emerging phase, it may make sense for multinationals to establish partnerships with local players, benefiting from their local knowledge and relationships to gain a foothold in the nascent market. In a country where a product or service is in the Maturing phase, companies will be faced with slower growth, fiercer competition, and better established competitors. With less headroom for growth, market share becomes more important, making market entry through acquisition increasingly attractive.

Understanding the maturity of target markets can help companies decide when and how to enter

Figure 6: S-curve for passenger cars



1. Emerging
Demand is still in its infancy because most consumers can't afford to buy a car – e.g. Thailand and Indonesia.

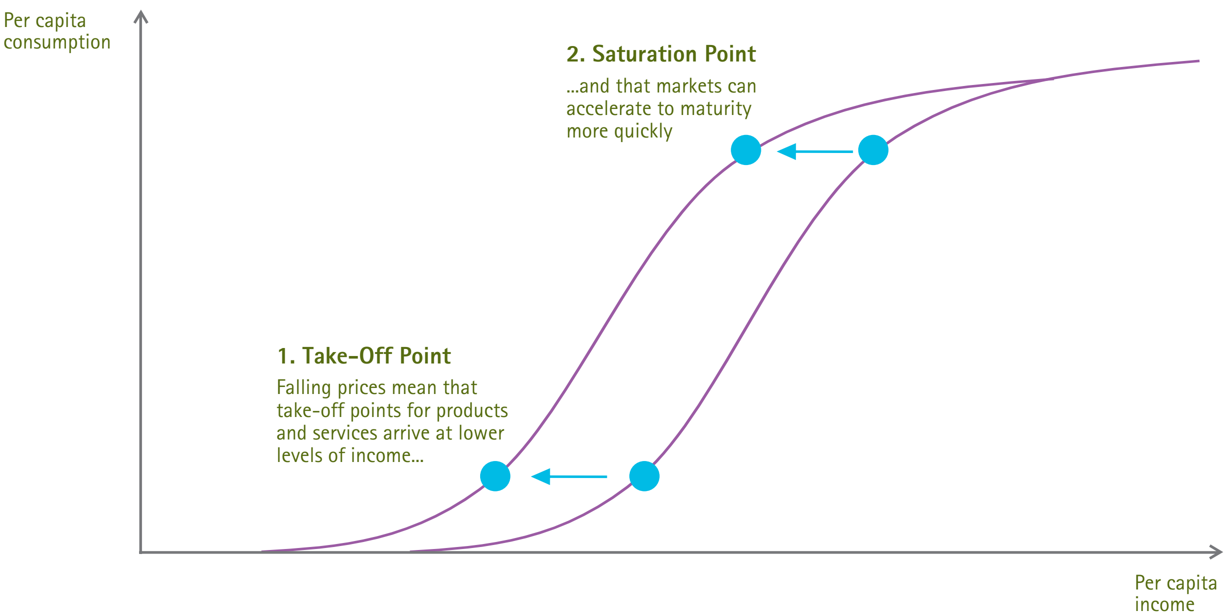
2. Accelerating
At a certain threshold (around US$6,000), greater affordability sees demand growth outstrip increases in GDP per capita – e.g. Argentina and Mexico.

3. Maturing
Beyond this point, increases in GDP per capita don't translate into significant demand growth - e.g. Germany and Spain.

Source: Economist Intelligence Unit; Accenture analysis

Falling prices of products and services mean that take-off and saturation points are shifting

Figure 7: Shifting S-curves



3

Uncover cross-country segments

In an era of increased cross-border flows of goods, services, ideas and people, there are often greater similarities among consumers across countries than within them. By focusing on similar segments across different countries, companies can share leading practices across borders and create the scale needed to serve previously unprofitable customer segments.

Understand cross-country consumer preferences

As a result of globalisation and the rapid proliferation of the Internet, goods, services, ideas and people flow more freely than ever between the world's countries and regions. These flows lead to the spread and greater convergence of attitudes, tastes and preferences across borders. Today, high-income consumers in Mumbai have more in common with affluent consumers in Shanghai, Tokyo and New York than with consumers in rural India, whose needs and purchasing power are likely to be more akin to rural consumers in China or many Africa countries. This creates a dilemma for companies who have traditionally designed their emerging-market strategies on a country-by-country basis. The diversity of larger emerging markets means that successfully serving multiple consumer segments requires a host of different approaches; a one-size-fits-all strategy simply won't cut it. However, multiple strategies across many markets increase cost and complexity. How can this dilemma be addressed?

Look for cross-country segments

Cutting across their geographic strategies, companies should seek to identify segments – groups of consumers with similar tastes and preferences – across countries. Conventional thinking on emerging markets often emphasises their diversity, and the need to design individual strategies and offerings to successfully compete in each market. However, while companies should be careful not to underestimate the differences across emerging markets, they equally shouldn't overlook opportunities to build greater scale into their operations. Procter & Gamble is an example of a company that looks at segments of customers on a global scale. For example, P&G found that taboos over feminine hygiene products in rural India were similar to those in parts of Africa. To counter these issues, P&G worked with schools and local communities to raise awareness of the importance of female hygiene issues. Though a continent apart, the similar attitudes and needs of consumers in rural India meant that P&G was able to use its experience in Africa to quickly roll out and scale a pilot outreach programme in Rajasthan, India.

Similarly, Dabur, the Indian consumer goods company, has adopted an international expansion strategy based on segments. Dabur found that hair-care preferences in other parts of South Asia and the Middle East were similar to those in India, and capitalised on this by launching Dabur Amla, its hair oil, in Bangladesh, Pakistan and the United Arab Emirates. Given the huge Indian diaspora across the world, the company has ambitious plans to capitalise upon this segment to further expand its international footprint.

Unlock new sources of demand

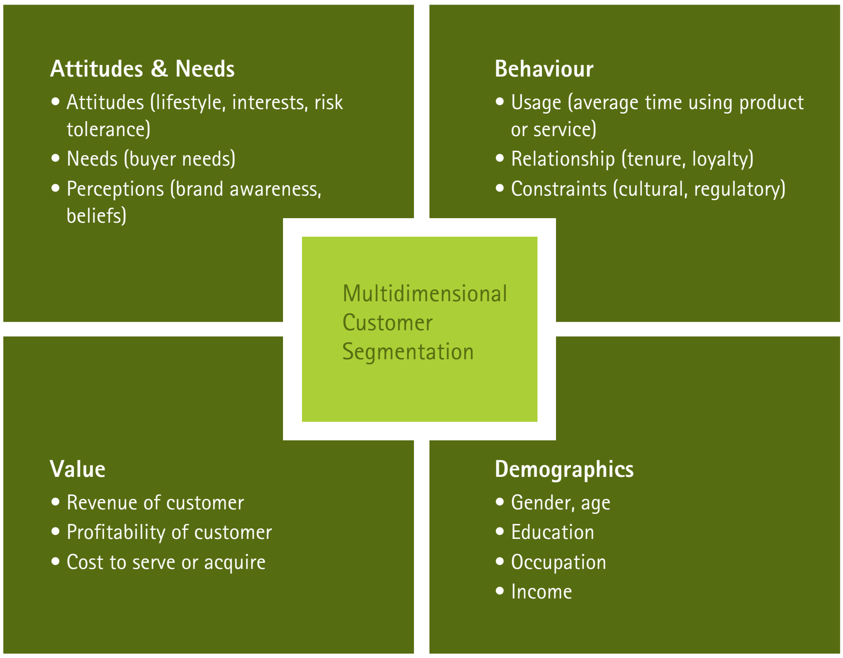
Uncovering segments can also help companies unlock demand in previously unprofitable consumer segments. Significant untapped demand exists in emerging markets, particularly in remote rural areas where margins are razor thin or in small emerging markets where volumes are insufficient to generate adequate returns on their own. Uncovering segments can allow companies to serve these markets profitably, by creating the combined scale needed to bring down operational costs, such as production, marketing and distribution.

Re-examine your customer segmentation techniques

A granular approach to growth – one that dissects the opportunities within markets – will be needed to uncover cross-country segments. Companies may also need to re-examine their customer segmentation techniques. Many companies continue to divide their customer base into groups based on simple demographics, such as age or income, or into categories based on how profitable they are. These are important, but to help identify similar clusters of consumers across borders, companies need to supplement this data with often-neglected behavioural and needs-based attributes, such as time spent online or brand loyalty, to create a truly multidimensional customer segmentation (see figure 8).

Companies need to look beyond simple demographics and consumer value when defining customer segments

Figure 8: Multidimensional customer segmentation



Source: "New Faces, Places and Spaces: Customer-centric principles for acquiring customers in today's multi-polar world", Accenture 2009.

4

Use data as a differentiator

Good data is the key to good decisions, but data is notoriously difficult to get hold of and often unreliable in emerging markets. Companies that can find ways to overcome this can steal a march on their competitors by more accurately targeting customers and better identifying opportunities to improve efficiency.

Good data; good decisions

Good data is the key to good decisions, and making good decisions is even more important as companies retrain their sights on growth, particularly in a cost-conscious recovery period. In putting together the business case for entering a new market, targeting a new customer segment, or launching a new product or service, few executives still rely on gut instinct alone to guide their decisions. This is particularly true in less familiar emerging markets. Executive teams will scour economic, financial, demographic, social and risk indicators to paint a detailed picture of the business landscape in specific countries and the tastes and preferences of their target customers. But what happens when good data simply doesn't exist? You can have the most powerful and sophisticated analytical tools available, but they're of little use if the underlying data being analysed is unreliable. This is the challenge facing many companies looking to build a better understanding of customers in emerging markets.

Dodgy data

Getting hold of reliable data is a constant headache for companies looking to enter or expand in emerging markets. Data might exist for the major urban areas in emerging markets, such as Cairo, Delhi, Hanoi or Rio, but it gets a lot patchier outside the big cities and can be non-existent in remote, rural areas. Take the case of Experian, the credit ratings agency, that is attempting to put together "credit CVs" for rural Indians to assess their credit worthiness. They are trying to collect data on customers, many of whom live in dwellings that don't have house numbers or street names.[6] Consumer goods companies face similar difficulties. Given the traditional small-scale mom-and-pop retail outlets that reach beyond the big cities, reliable information about the tastes, preferences and buying behaviours of customers rarely exists.

Use data as a differentiator

So how should companies go about getting the data they need? Given the razor-thin margins that companies face beyond the big cities, expansive market research efforts aren't an option. Instead, companies must find innovative ways to capture data about target customers, taking advantage of low-cost technologies.

Hindustan Unilever (HUL), India's largest fast-moving consumer-goods company, is an example of a company that is making use of mobile technologies to get information on demand patterns and consumer trends in remote areas. As part of a trial, HUL is providing some of its rural distributors – including traditional mom-and-pop stores – with mobile devices to capture and relay information about its products – including stock levels and pricing. This creates a real-time stream of information that can be used to better predict demand and manage inventory, develop new products and services, and craft targeted marketing messages. AC Nielsen, a research firm, estimates that better demand forecasting has allowed HUL to increase sales in rural stores by around one-third.[7]

As the HUL example shows, companies looking to build a better understanding of consumers beyond the big cities will increasingly turn to mobile technologies to capture and track data. However, some of the most innovative companies will be able to reach even further. For example, in Brazil, Banco Bradesco is able to access 200,000 potential customers via a bank branch on a boat that travels up and down a section of the Amazon River. This allows them to serve customers who don't even own a mobile, and to capture valuable information about their evolving needs and preferences.

Turn data into dollars

Collecting proprietary data about customers can be incredibly valuable, even providing the basis for entirely new businesses. Grupo Elektra, for example, a Mexican retailer, started offering credit to consumers who did not have a bank account. In the process, it ended up collecting a wealth of financial information about its customers. To utilise this data, it decided to move into financial services, and now has one of the country's biggest networks of bank branches to complement its popular retail chain.

Burj Khalifa Skyscraper in Dubai, United Arab Emirates

5
Compete on risk

Expanding into emerging markets can be a risky business, especially for companies that are more accustomed to the safer surrounds of the United States and Western Europe. High performers are not only better at identifying and managing risks, they increasingly see risk as a competitive differentiator.

The revival of risk

The political turmoil witnessed in parts of North Africa and the Middle East in early 2011 provided a timely reminder that risk matters when it comes to doing business in emerging markets. Take Egypt as an example. Before the dramatic events in January 2011, the country's strong economic growth, relatively well-educated population, large domestic market, and pro-business reforms made it an attractive proposition for multinational companies. Between 2005 and 2009, foreign direct investment into Egypt doubled, making it North Africa's most popular investment destination. However, the impact, speed and unpredictability of events served to highlight the significant risks that still accompany investments in many emerging markets.

Expect the unexpected

Emerging markets are, by and large, inherently riskier than the developed markets in which most multinational companies have traditionally operated. The political instability that companies were faced with in North Africa is just one type of risk companies have to deal with. When doing business in emerging markets, companies are also often faced with underdeveloped infrastructure, weak protection of intellectual property rights, unpredictable regulation, and greater financial volatility, to name just a few of the risks (see figure 9). A number of companies have found themselves faced with unexpected challenges over recent years. High-profile examples include Vodafone's tax dispute in India, the breakdown of Danone's joint-venture with Chinese food and beverage company Wahaha, or the cyber security threat that Google has faced in China.

Balancing opportunity and risk

Emerging markets are riskier, but few companies can afford to ignore the growth opportunities they present. Managing this balance is a growing concern in boardrooms. Most Western multinationals without a long history in the emerging world are ill-prepared to deal with the broader range and heightened levels of risk they face.

Risk practices are honed for their home markets or similar developed countries, and the significant cost cutting and organizational reshuffling in response to the downturn have left the operations of many companies vulnerable.

The rapid internationalisation of many companies has also left them exposed. In configuring their global expansion plans, many companies have focused on the opportunity at the expense of the potential risk. For example, in an effort to quickly scale their businesses across borders, a number of companies have reduced the importance of their country managers in favour of product-led business units that span geographies. As recent events have shown, while the macroeconomics of business may be increasingly borderless, politics and other components of risk certainly aren't.

Compete on risk

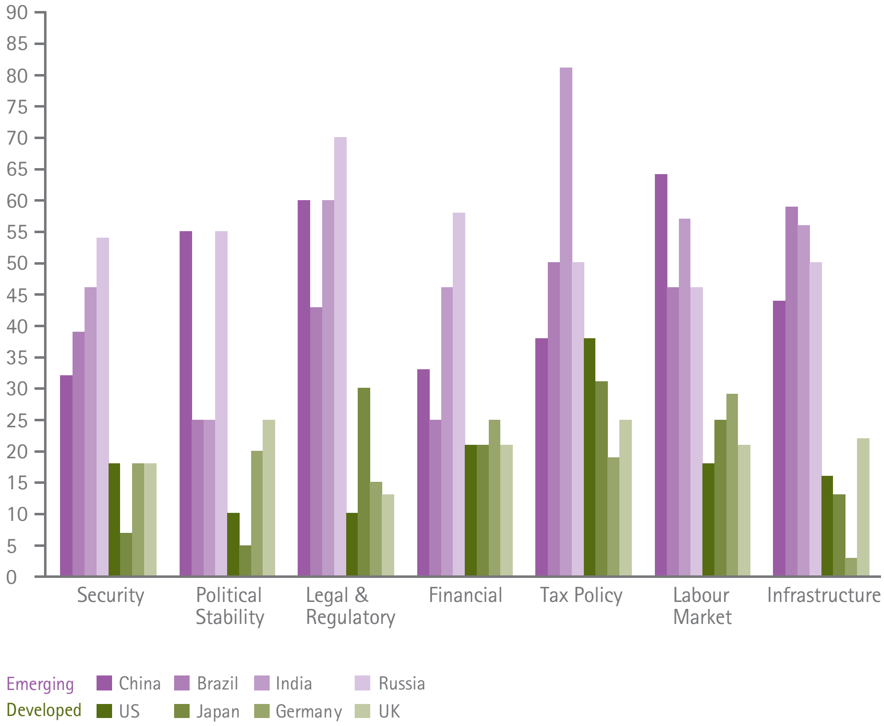
Emerging markets far beyond the BRICs now receive greater attention from all angles, whether from analysts, investors or the media. New technologies and market liberalisation increasingly allow companies of any size to access opportunities in these markets. You no longer need to be a Coca-Cola, Procter & Gamble or General Electric to have expansive ambitions in the emerging world. As the opportunities become increasingly accessible, risk can become an important differentiator, allowing companies to significantly increase their degrees of freedom in emerging markets.

Walmart is a company that gains competitive advantage through its strong risk-management capabilities. The US retailer has historically gained market share in the wake of natural disasters, such as hurricanes, or other serious events. This is the result of Walmart's meticulous contingency planning, allowing it to recover quickly from temporary supply chain shocks and reopen its stores rapidly, by relying on back-up measures such as mobile electricity generators. By responding faster than its competitors, alongside increased sales, Walmart generates significant goodwill by assisting the communities in which it operates at a time of significant upheaval.[8]

To compete on risk, companies need to strengthen their risk-management capabilities. They need to build their capacity to identify risks, assess their potential impact across the entire organisation, and monitor and mitigate the effects (see figure 10). The prioritisation of risks will differ depending on a number of factors, such as a company's industry, its geographic footprint and its strategic priorities. Nissan, the Japanese automaker, provides a useful example. The company manufactures a large proportion of its cars in Japan, but increasingly sells them in the United States and other parts of Asia. Nissan identified that this mismatch between supply and demand left the company exposed to exchange-rate volatility. To respond, Nissan plans to migrate a significant portion of its operations to the United States and Asian countries with dollar-linked currencies.[9]

Emerging markets are riskier across the board

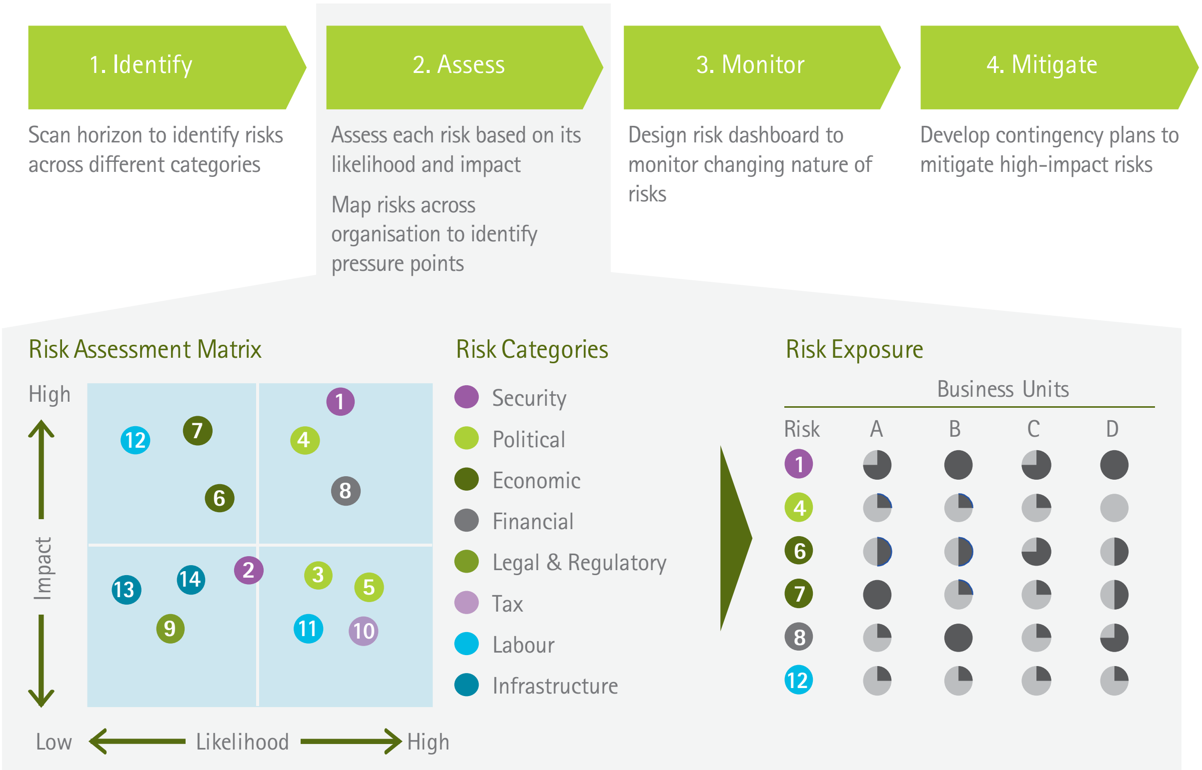
Figure 9: Risk ratings
(risk rating: 0 = low risk, 100 = high risk)



Source: Economist Intelligence Unit

Companies can use a risk-response framework to identify potentially high-impact risks and develop contingency plans to mitigate them

Figure 10: Risk-Response Framework



The coming phase of global competition promises to be eventful. Growth is on the minds of executives all around the world; but with persistent uncertainties and questions around the nature of the recovery, companies need a clear strategy that looks beyond the current fog and prioritises investments to achieve sustainable, long-term growth.

Emerging markets will take on even greater prominence in the post-recession era. For multinationals in many industries, emerging markets will be where the greatest opportunities lie, but also the greatest threats. A thriving business in mature markets will no longer be sufficient to ensure sustained high performance. To be tomorrow's global industry leaders, companies will need to build successful businesses in emerging markets.

Getting beneath the headline figures, understanding your shifting S-curve, uncovering cross-country segments, using data as a differentiator, and *competing on risk* will help companies develop the insights and capabilities that are essential to success. It's time to prepare.

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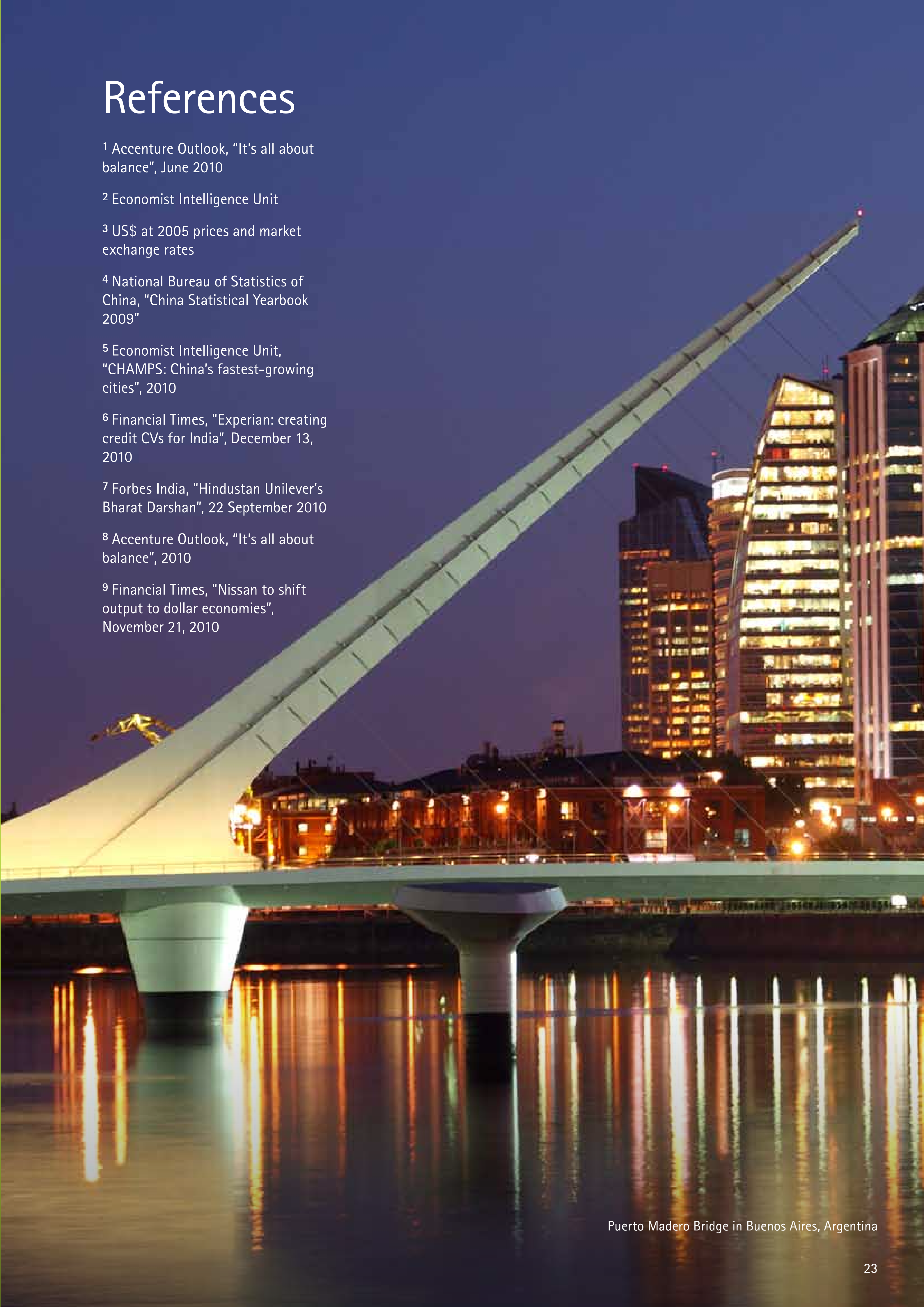

Puerto Madero Bridge in Buenos Aires, Argentina

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We would like to thank Paul Nunes and Ivy Lee for their insights and contributions to this report.

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The Accenture Institute for High Performance creates strategic insights into key management issues and macroeconomic and political trends through original research and analysis. Its management researchers combine world-class reputations with Accenture's extensive consulting, technology and outsourcing experience to conduct innovative research and analysis into how organizations become and remain high-performance businesses.

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