Fortresses and footholds
Emerging market growth strategies, practices and outlook

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Executive summary

At a time when most developed economies are still struggling to fully recover from the 2008 global financial crisis, China, India, Brazil, and other emerging markets are projected to account for a majority of the growth in global gross domestic product (GDP) over the next several years. While multinational companies have historically used emerging markets primarily to reduce costs, organizations are increasingly looking to these markets as a platform for revenue growth through 2014 and beyond.

In mid-2011, Deloitte Consulting LLP conducted a survey of 628 executives to understand where they perceived the greatest revenue opportunities in emerging markets, which growth strategies have proved most successful, and the challenges companies face. The survey respondents included 389 executives from companies that currently generate revenues from one of 10 key emerging market countries or regions: China, India, Southeast Asia, South Korea, Brazil, Latin America outside Brazil, Eastern Europe and Russia, Turkey, Egypt, and South Africa.[1]

The companies surveyed found that the greatest success in emerging markets came not from simply establishing a sales office and selling their existing products and services. Instead, these companies came to understand the special requirements of customers in each market and then designed offerings to meet their needs at market appropriate prices. A key ingredient in success was to establish company-owned production, service, distribution, R&D, and other operations in emerging markets to become closer to customers and part of the local business community.

Executives saw the greatest opportunities and key strategies in the following areas.

Geographic hot spots for growth

Greatest opportunities seen in "BIC" (BRIC minus Russia). Executives at companies active in emerging markets were most likely to expect revenue increases of 25 percent or more over the next three years in India (57 percent), China (56 percent), and Brazil (49 percent).

Next wave of investment may be broader. Executives at companies that did not currently have emerging market revenues, however, were most likely to cite Southeast Asia, Eastern Europe and Russia, and Latin America outside Brazil as the locations their company was most likely to enter over the next three years. Twenty seven percent of European companies without emerging market revenues expected to begin generating revenues from Eastern Europe and Russia over the next three years compared to only 11 percent of Chinese companies and just 2 percent of U.S. and Canadian companies.

Successful growth strategies

Local matters. Even among the larger companies, those with extensive company-owned operations in emerging markets were more successful when it came to achieving their revenue goals. Among companies with revenues greater than $1 billion with company-owned operations in at least five top emerging markets, 60 percent exceeded their revenue goals compared to 32 percent of companies with operations in four or fewer of these markets.[2]

Local operations may provide advantages, such as greater knowledge of customer needs and buying habits, greater brand awareness in the market, and more experience in navigating government approvals and procedures. When executives were asked about growth strategies, the strategies often rated as being extremely or very successful were:

- Using local sales/service support centers (62 percent)
- Employing company-owned sales or distribution (60 percent)
- Conducting R&D locally (45 percent)

Organic growth appears most promising. Across companies of all sizes and industries, organic growth was considered the most important approach for expanding in emerging markets, cited by 60 percent of executives, followed by joint ventures with local companies (20 percent).

[1] In this report, companies that generate revenues from sales to one or more of these locations are described as having "emerging market revenues" or being "active in emerging markets."

[2] The top emerging markets were China, India, Southeast Asia, South Korea, Brazil, Latin America outside Brazil, and Eastern Europe and Russia.

Success requires adapting to these markets. Based on survey findings, success in emerging markets requires companies to go beyond simply exporting their existing offerings sold in the advanced economies. Instead, companies must customize offerings to meet the specific tastes and preferences of local customers in each emerging market. Two strategies most often cited as extremely or very successful were:

- Designing products/services specifically for the local emerging market (60 percent)
- Offering a different value proposition for emerging market customers (59 percent)

Unsuccessful strategies

Non-traditional models have been less successful. Respondents were clear that some strategies have not worked as well as others. Many companies have not been successful employing non-traditional distribution channels (41 percent), offering products/services in smaller packages or bundles at lower prices (28 percent), and partnering with non-governmental organizations (NGOs) and local organizations (28 percent).

Key challenges

A variation on localization: Companies struggle with brand awareness and meeting customer needs at affordable prices. Regarding the challenges companies face, our survey results indicated the top challenge was *brand awareness in the market*, which was among the top three challenges in **all** six markets and the number one challenge in Latin America (outside Brazil). Next, *providing products/services that meet customer needs at affordable prices* was rated as one of the top three challenges in the major emerging markets analyzed in detail.

Importantly, there were differences across locations. In China, *adequate intellectual property protection* was the number one challenge, but it was not rated among the top three challenges for any other market. *Protectionist policies or government bureaucracy* was one of the top three challenges only in India, and in Eastern Europe and Russia.

Way forward

Moving forward, we see four primary elements that leaders must address to achieve their emerging market revenue objectives.

- While BIC countries plus Mexico remain highly relevant, companies will need to broaden their aperture to identify investments in up-and-coming regions.
- Organizations must evolve their value propositions in ways highly customized to the needs of customers and segments in particular emerging markets and at times, sub-markets.
- As the ability to understand local market needs becomes increasingly critical, developing more in-market capabilities will likely produce higher revenue impact.
- Lastly, companies must learn the complexities and nuances of requirements idiosyncratic to each market, identifying and mitigating market specific risks.

For many companies, the opportunity in emerging markets is significant, but the challenges can be daunting. Driving growth in emerging markets has fundamental implications for a company's business strategy, operating model, and risk management capabilities – now as well as in the future. The lessons learned from this survey – both successes and failures – can help organizations build more robust and sustainable platforms for growth in emerging markets.

Continued rise of emerging markets

The last few years have seen China, India, Brazil, and other emerging markets firmly establish themselves as forces in the world economy. For many years, multinational companies located in developed economies such as the United States (U.S.), Europe, and Japan have located operations in emerging markets and sourced materials or manufacturing from these locations as a way to drive down costs. But today, with weaker economic conditions in most developed economies, the importance of generating revenues in faster-growing emerging markets has taken center stage.

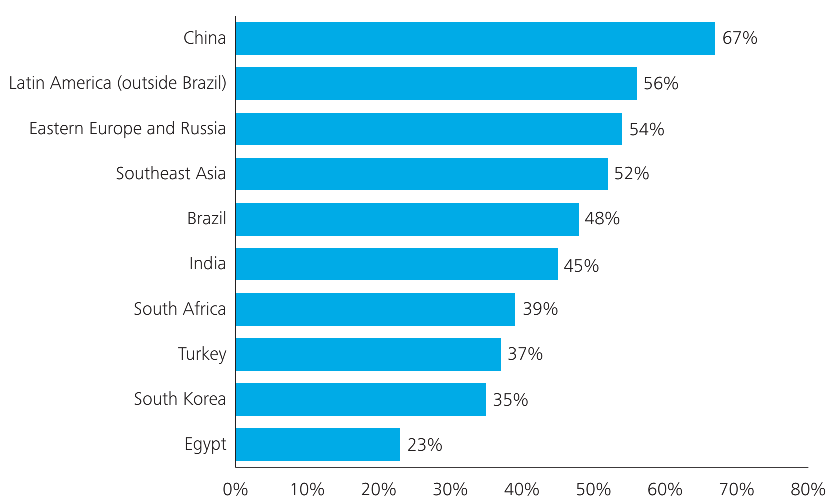
Emerging markets economies were less affected in the global financial crisis and have rebounded more strongly. Emerging markets continued to grow by 2.8 percent in 2009, at a time when the major developed economies contracted.[3] In 2010, GDP in emerging economies grew by 7.3 percent, compared to growth of 3.0 percent in the United States, 1.8 percent in the Euro area, and 4.0 percent in Japan.[4]

As a result, emerging markets have accounted for an increasing share of global economic growth. While emerging markets contributed roughly one-third of world GDP growth during 1973 – 1985, their share jumped to 47 percent from 1986 – 2007.[5] Looking ahead, Deloitte research projects that emerging markets will account for 58 percent of growth in global GDP from 2010 – 2015, compared to 32 percent for the advanced economies of the G7.[6] Once considered to be dependent on economic activity in advanced economies, today emerging markets are increasingly the engines of global growth.

Emerging markets, however, are not a homogenous group, and it is important to recognize that their economic performance varies. For example, the International Monetary Fund (IMF) predicts that China will grow by 9.0 percent in 2012 and India by 7.5 percent, but other emerging markets are expected to grow at a more modest pace. The IMF predicts growth in 2012 in Russia of 4.1 percent, Mexico of 3.6 percent, and Brazil of 3.6 percent.[7]

Figure 1: Emerging markets from which company generates revenues

Base = Respondents at companies with emerging market revenues



[3] World Economic Outlook Update, International Monetary Fund, September 2011, http://www.imf.org/external/pubs/ft/weo/2011/02/pdf/text.pdf

[4] World Economic Outlook Update, International Monetary Fund, September 2011, http://www.imf.org/external/pubs/ft/weo/2011/02/pdf/text.pdf

[5] Ayhan Kose and Eswar S. Prasad, "Emerging Markets Come of Age, International Monetary Fund, Finance & Development Magazine, December 2010, Vol. 47, No. 4, http://www.imf.org/external/pubs/ft/fandd/2010/12/kose.htm

[6] G7 are Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.

[7] World Economic Outlook Update, International Monetary Fund, September 2011, http://www.imf.org/external/pubs/ft/weo/2011/02/pdf/text.pdf

Emerging markets a priority

The growing importance of emerging markets was reflected in the importance these markets have in the business strategy of the companies surveyed. Among the companies currently active in emerging markets, 73 percent of executives surveyed said increasing emerging market revenues over the next three years was a major or significant priority. Even among companies not currently generating emerging market revenues, 34 percent of executives said it was a priority for their firms to begin generating revenues in these markets over the next three years.

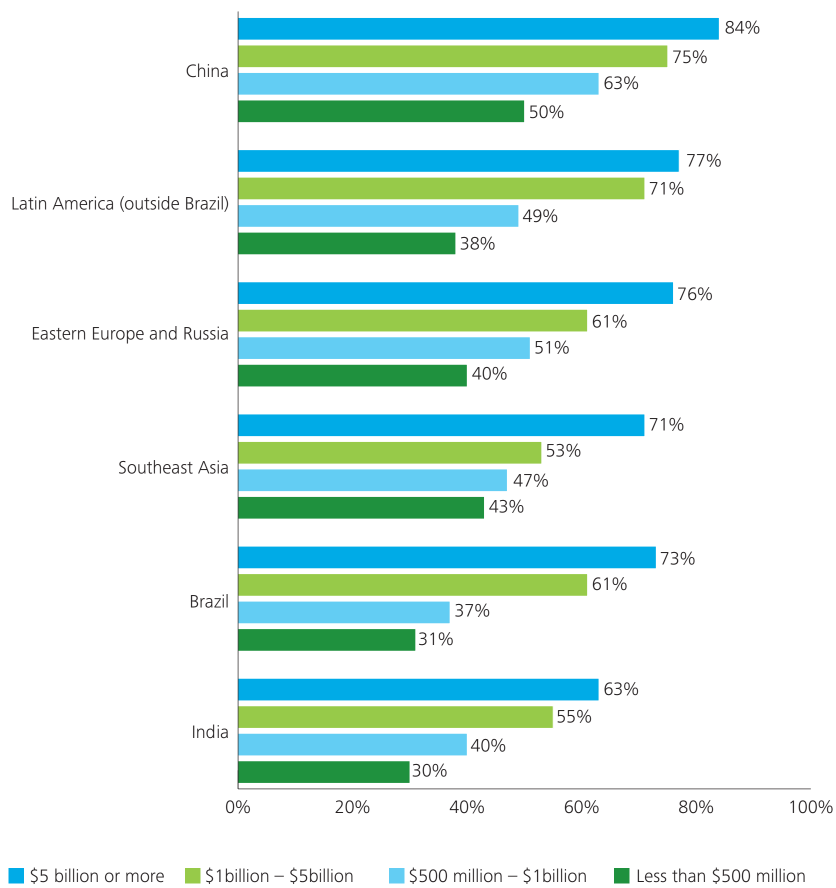
Executives are optimistic about the outlook for revenue growth in these markets. Among companies with emerging market revenues, 28 percent surveyed said that these markets contributed more than 30 percent of their company's global revenues today, but 51 percent expected that would be the case in three years.

Two-thirds of the companies with emerging market revenues were active in China, while roughly half generated revenues from other major emerging markets (Figure 1).

Larger companies were more likely than smaller companies to generate revenues from each emerging market. For example, roughly three quarters or more of companies with revenues of at least $5 billion reported revenues from China, Latin America (outside Brazil), Eastern Europe and Russia, Southeast Asia, and Brazil (Figure 2). In contrast, among small companies (less than $500 million in revenues) active in emerging markets, half generated revenues from China while 40 percent or fewer reported revenues in any of the other locations.

Figure 2: Emerging markets from which company generates revenues

Base = Respondents at companies with emerging market revenues



Note: Only top six emerging markets are shown.

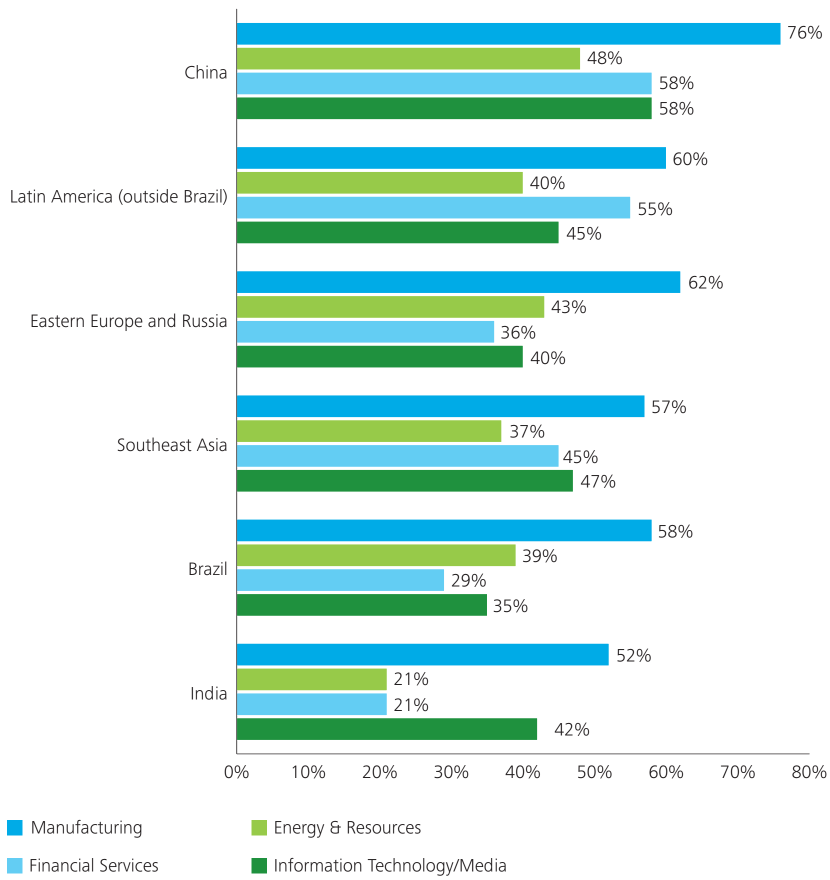
Even among companies not currently generating emerging market revenues, 34 percent of executives said it was a priority for their firms to begin generating revenues in these markets over the next three years.

Among companies with emerging market revenues, manufacturing firms were most likely to be active in specific markets. For example, 58 percent of the manufacturing companies generated revenues in Brazil compared to 39 percent of the companies in energy and resources, 35 percent of those in information technology/media[8], and 29 percent of those in financial services (Figure 3). In India, 52 percent of the manufacturing companies reported revenues as did 42 percent of the companies in information technology/media, compared to only 21 percent each in financial services and in energy and resources.

58 percent of the manufacturing companies generated revenues in Brazil compared to 39 percent of the companies in energy and resources

Figure 3: Emerging markets from which company generates revenues

Base = Respondents at companies with emerging market revenues



Note: Only top six emerging markets are shown.

[8] In this report, "information technology/media" also include telecommunications.

Geographic hot spots

Companies already in emerging markets expect greater growth

The survey results indicated that executives at companies active in emerging markets anticipate revenue increases of 25 percent or greater over the next three years in three locations: India (57 percent), China (56 percent), and Brazil (49 percent) (Figure 4).

Although executives were most optimistic about China, India, and Brazil, they also saw significant opportunities in a second set of markets that included Russia, Poland, Mexico, Argentina, and several countries in Southeast Asia (Figure 5). These countries may be the focus of the next wave of expansion in emerging markets.

In Eastern Europe and Russia, executives at companies with existing emerging market revenues said the greatest revenue opportunities were in Russia (66 percent) and Poland (45 percent).[9] Process manufacturers (providing chemicals, metal, or other materials) (85 percent) and consumer products manufacturers (82 percent) were especially optimistic about the opportunities in Russia.

In Latin America (outside Brazil), executives saw the greatest opportunities in Mexico (56 percent), Argentina (44 percent), and Chile (36 percent). Among process manufacturers, 81 percent cited Mexico as providing revenue opportunities. Sixty four percent of consumer product manufacturers also saw opportunity in Mexico.

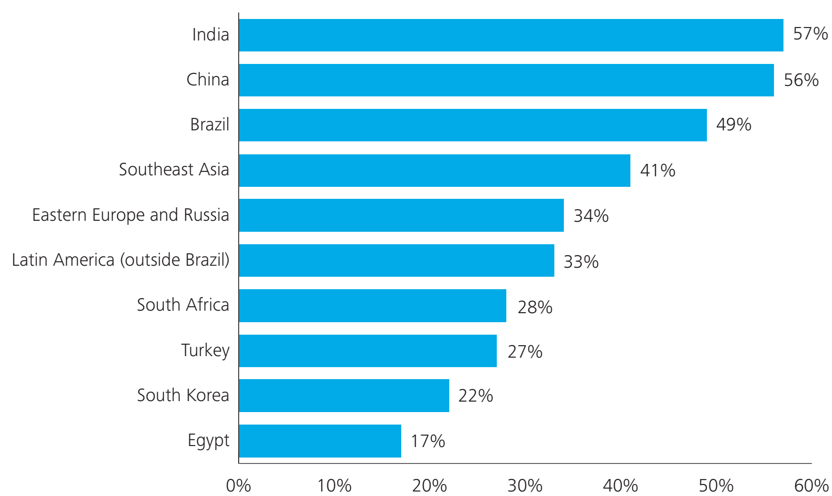
There was no clear favorite in Southeast Asia, with Indonesia, Thailand, Vietnam, Malaysia, and Singapore selected by executives as providing the greatest revenue opportunities in the region. Manufacturing companies saw the greatest opportunities in Southeast Asia. For example, 49 percent of manufacturers cited revenue opportunities in Thailand, significantly more than for information technology/ media (27 percent), energy and resources (21 percent), or financial services (14 percent).

Companies not yet in emerging markets expect growth close to home

When executives at companies that were *not* currently generating revenue from emerging markets were asked where they believed their company would begin to generate sales over the next three years, they had a different list of targets. Unlike companies already in emerging markets, they were most likely to cite Southeast Asia (13 percent), Eastern Europe and Russia (11 percent), and Latin America outside Brazil (10 percent). Companies not already present in China, India, and Brazil may feel that the costs of entry are too high and they have already missed the opportunity to penetrate the market. Deloitte's experience, backed by the data in this survey, indicates any individual market can present an opportunity with the appropriate growth strategy. (See sidebar, "Driving revenue growth in emerging markets: Four archetypes," page 17).

Figure 4: Substantial revenue increases in emerging markets over next three years

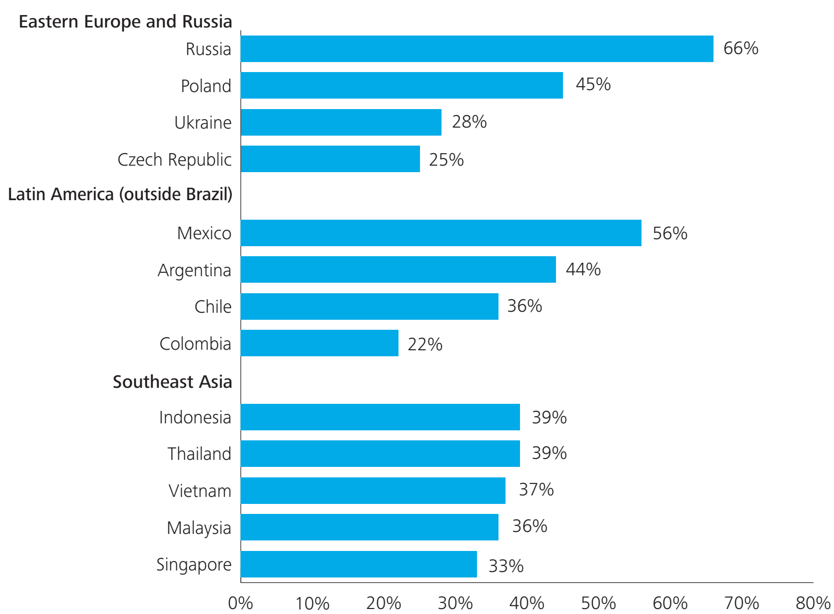
Percentage of companies expecting increase of 25% or more
Base = Respondents at companies with emerging market revenues



[9] These percentages total to more than 100 since executives were allowed to select more than one country in each region.

Figure 5: Locations in each region offering the greatest revenue opportunities over next three years

Base = Respondents at companies with emerging market revenues



Companies without emerging market revenues were much more likely to stay close to home as they enter emerging markets.

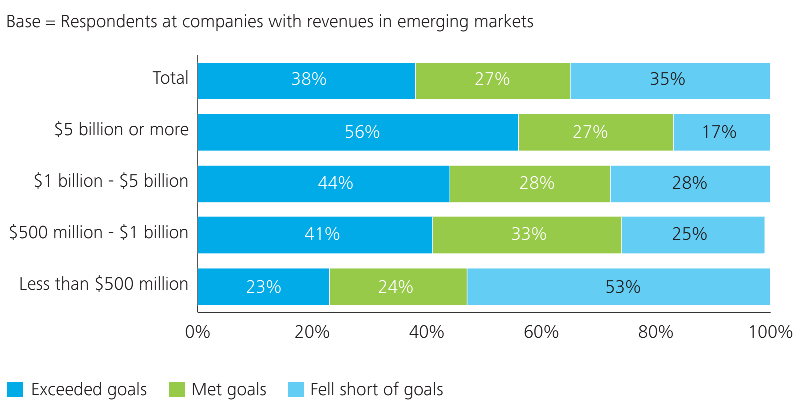
- **Southeast Asia.** Among companies headquartered in China (with no revenues from other emerging markets), 18 percent expected to begin generating revenues in Southeast Asia over the next three years, compared to only 4 percent of each U.S., Canadian and European companies.
- **Eastern Europe and Russia.** Twenty seven percent of European companies without emerging market revenues expected to begin generating revenues from Eastern Europe and Russia, compared to just 2 percent of U.S. and Canadian companies and 11 percent of Chinese companies.
- **Latin America outside Brazil.** Among U.S. and Canadian companies not active in emerging markets, 13 percent expected to begin generating revenues in Latin America (outside Brazil), although 8 percent each of European and Chinese companies also expected to enter this region.

Emerging market growth strategies

Although companies placed a high priority on driving increased revenues from emerging markets, they reported mixed success in meeting their goals. Among companies with emerging market revenues, 38 percent had exceeded their goals over the last three years, 27 percent had met them, and 35 percent had fallen short (Figure 6).

The largest companies were much more likely to have exceeded their goals. Among companies with revenues of $5 billion or more, 56 percent had exceeded their goals in emerging markets, compared to roughly 40 percent each for companies with $1 billion to $5 billion in revenues and with $500 million to $1 billion. Companies with less than $500 million in revenues reported only 23 percent exceeded their goals. Among these smaller companies, 53 percent had fallen short of their goals compared to only 17 percent of companies with revenues of $5 billion or more.

Figure 6: Success in meeting revenue goals over last three years in emerging markets



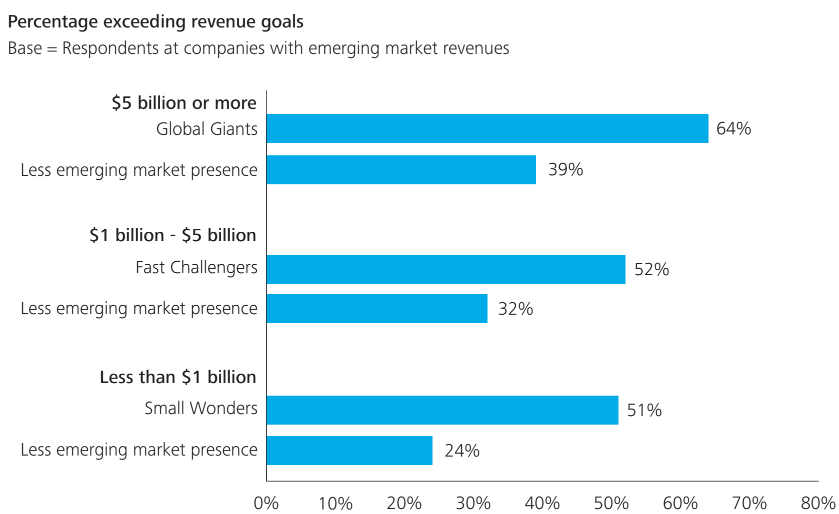
Local presence a key ingredient in success

One key ingredient to success in achieving revenue goals seems to be the breadth of a company's presence in emerging markets. For companies of each revenue segment ($5 billion and more, $1-5 billion, $500 million-$1 billion, less than $500 million), the survey results were analyzed into two groups:

- Companies that generate 20 percent or more of their global revenues from emerging markets
- Companies that generate less than 20 percent of the global revenues from emerging markets. (See sidebar, "Key cohorts in emerging markets," page 13).

The results were revealing. For each revenue group, companies with a greater share of their revenues from emerging markets were much more likely to have exceeded their goals over the last three years (Figure 7). For example, 64 percent of Global Giants (revenues of $5 billion and more with 20 percent or more of their global revenues from emerging markets) had exceeded their revenue goals compared to 39 percent of companies with a smaller share of emerging market revenues. Similarly, Small Wonders (revenues of less than $1 billion with more than 20 percent of their revenues from emerging markets) were twice as likely as those with lower emerging markets revenues to have exceeded their goals.

Figure 7: Success in exceeding revenue goals over last three years in emerging markets



Note: Global Giants, Fast Challengers, and Small Wonders are companies located in developed markets that generate 20 percent or more of their global revenues from emerging markets. "Less Emerging Market Presence" is the group of companies in each revenue range that are located in developed markets and generate *less* than 20 percent of their global revenues from emerging markets.

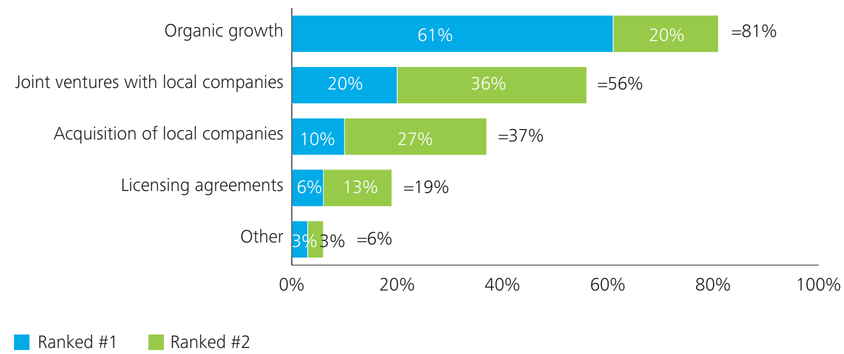
Emerging Market Contenders are not shown since this cohort was defined based on their success in achieving their revenue goals in emerging markets.

Companies with greater presence in emerging markets appear to have gained insight into the customer needs in each market. This is consistent with another finding from the survey: Larger companies that have located company-owned operations in several emerging markets were more likely to report success. Among companies of $1 billion or more with company-owned operations in at least five of the emerging markets analyzed, 60 percent had exceeded their revenue goals over the last three years, compared to only 32 percent of companies with operations in four or fewer of the markets.

Company-owned operations in local markets may provide advantages, such as greater knowledge of customer needs and buying habits, greater brand awareness in the market, and more experience in navigating government approvals and procedures.

Figure 8: Most important methods of growing in emerging markets over next three years

Base = Respondents at companies with revenues in emerging markets (n=343)



Organic growth favored

Before choosing specific strategies to drive growth in an emerging market, a company must design its overall approach. Should it rely on organic growth? Acquire a local company? Seek a joint venture partner? Use licensing agreements? When executives were asked how important each of these approaches would be for their company over the next three years, organic growth was by far the most popular. Organic growth was ranked as most important approach by 61 percent of executives, triple the percentage that selected joint ventures with local companies (20 percent) (Figure 8). Only 10 percent selected acquisition of local companies and 6 percent cited licensing agreements. Further, organic growth was ranked as the most important approach by companies of all sizes and in all industries.

The choice of an overall approach is especially critical when a company first enters a market. Organic growth can offer substantial benefits—helping a company protect its intellectual property, providing insight into the needs and preferences of customers, and experience with the local business environment. On the other hand, it can also present greater risk since it requires knowledge of the local market to be successful and typically requires a substantial investment of management time and financial resources.

Understanding local needs

Companies often first enter an emerging market by simply offering their existing products/services, with only minor modifications required to meet minimum requirements, such as regulatory.

Although a company can establish a presence using this model, it will usually find that the potential market is constrained without adaptation. Companies selling products/services originally designed for developed markets often find that only affluent customers in emerging markets can afford them, not the much larger (and faster growing) middle- and lower-income segments. Further, the needs and preferences of emerging market customers are not always the same as those of customers in developed markets. Similarly, business-to-business (B2B) revenue growth may be constrained by the same dynamics because regional companies often cannot afford premium B2B products.

Companies with growth aspirations will increase market opportunities by doing more than simply exporting their existing offerings and instead designing products/services to meet the needs of emerging market customers at multiple price points.

When executives were asked how successful a series of emerging market strategies had been for their company, two of the most successful strategies were initiatives to meet the unique needs of local customers:

- Design products/services specifically for the emerging market country or region (60 percent)
- Offer a different value proposition for emerging market customers/consumers (59 percent) (Figure 9).

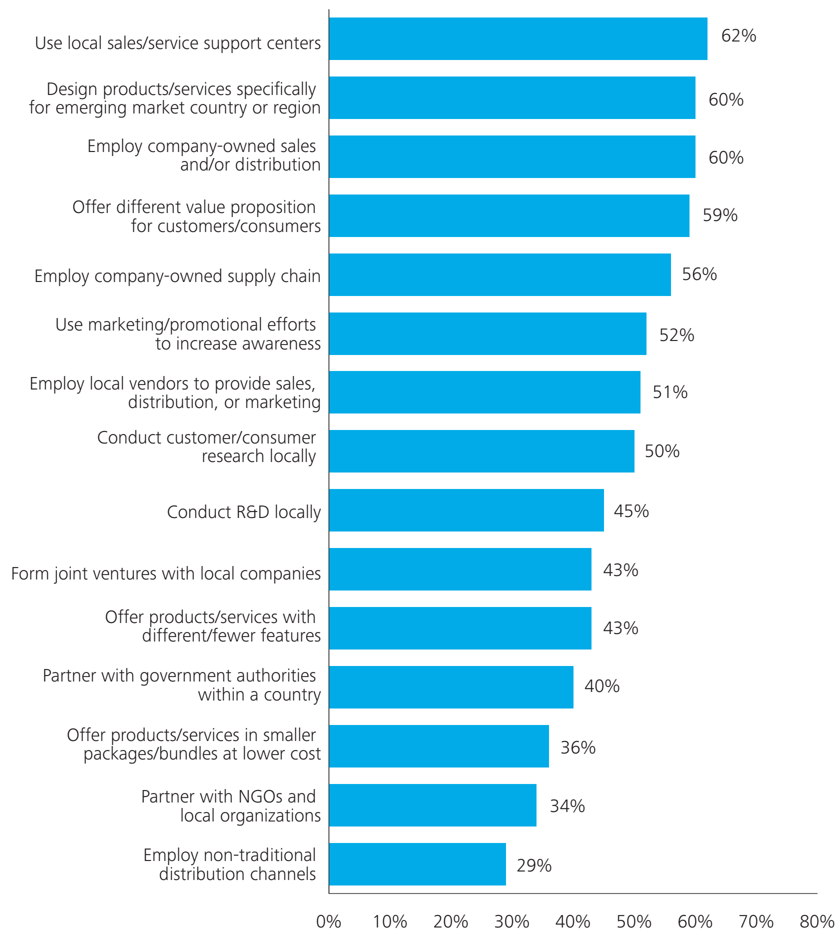
Most executives reported that efforts to customize their offerings and value proposition to individual emerging markets had proven very successful. But implementing these strategies is an ongoing struggle. In five of the six key emerging markets analyzed, one of the greatest challenges was to *provide products/services that meet customer needs at affordable prices.* (See below, "Confronting the Challenges to Revenue Growth," page 14).

Two other highly-rated strategies related to having a local presence were *use local sales/service support centers* (62 percent) and *employ company-owned sales and/or distribution* (60 percent). Companies that establish local company-owned operations become a part of the local business community, become closer to their customers, and gain familiarity with the business environment.

Other strategies rated as very successful also increase the ability of a company to understand local needs. For example, 50 percent of executives considered *conduct customer/consumer research locally* to be extremely or very successful, while 45 percent said the same about *conduct R&D locally.* Both strategies can provide a company with insight into the requirements and preferences of local consumers and business customers and aid in the effort to develop products and services specifically for the local market.

Figure 9: Success of emerging market growth strategies

Percentage responding extremely/very successful
Base = Respondents at companies with revenues in emerging markets



Many companies struggle with innovative partnerships and operating models

A significant portion of executives reported that some strategies had *not* been successful for their company. The strategies that companies were most likely to report had been unsuccessful were:

- *Employ non-traditional distribution channels* (41 percent)
- *Partner with NGOs and local organizations* (28 percent)
- *Offer products/services in smaller packages/bundles at lower cost* (28 percent) (Figure 10)

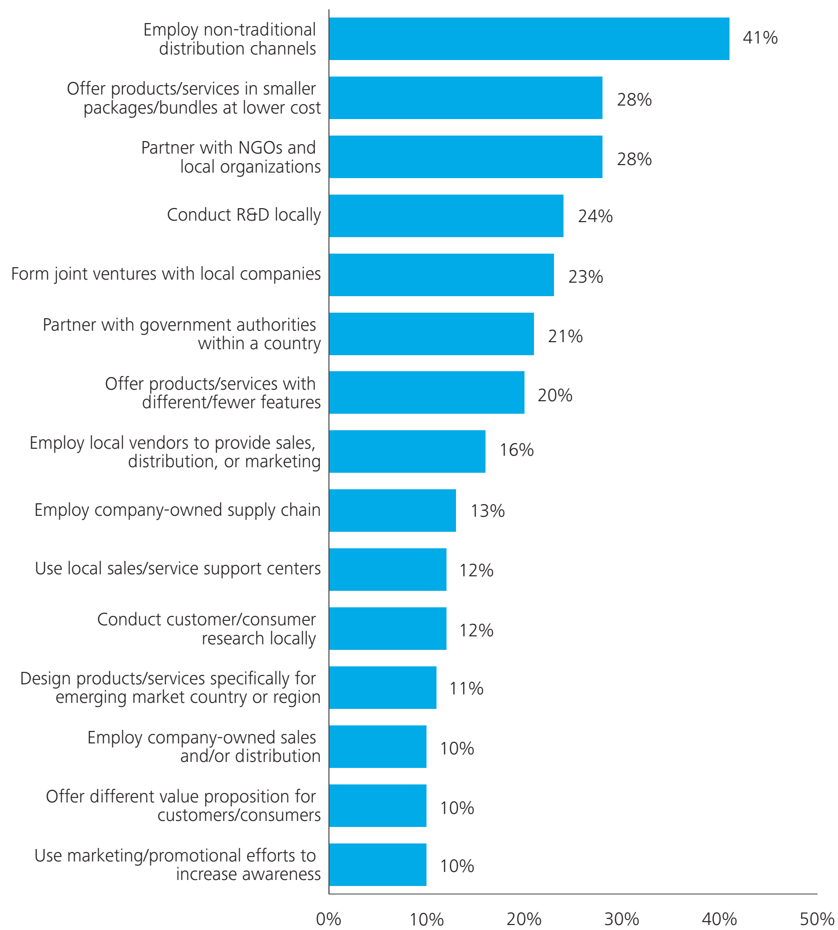
Among industries, *employ non-traditional distribution channels* was most often unsuccessful for companies in industrial product manufacturing (53 percent) and process manufacturing (62 percent). *Partner with NGOs and local organizations* was more likely to be unsuccessful with process manufacturers (46 percent) and companies in energy and resources (33 percent). Among information technology/media companies only 16 percent said that partnering with NGOs had been unsuccessful.

However, whether these or any other strategies are appropriate for a particular company will depend on a variety of considerations including the emerging market in question, the company's products/services, and the

Partner with NGOs and local organizations was more likely to be unsuccessful with process manufacturers (46 percent) and companies in energy and resources (33 percent).

Figure 10: Unsuccessful emerging market growth strategies

Percent responding not at all/not too successful
Base = Respondents at companies with revenues in emerging markets (n=357)



company's brand positioning. Even for the strategies that were most often seen as being unsuccessful, the fact remains that roughly one third of companies had found them to be very successful in their efforts to increase emerging market revenues. In addition, companies in certain cohorts and industries were much more likely to report success with them. For examples, 50 percent of Global Giants said non-traditional distribution channels had been extremely or very successful. Among consumer product manufacturers, 58 percent had been extremely or very successful in offering products/services in smaller packages/bundles at lower cost and 56 percent had been successful in using non-traditional distribution channels. The variances underscore the heterogeneity of the markets and the need for growth strategies grounded in market dynamics and company capabilities.

Key cohorts in emerging markets

Deloitte analyzed the survey results by the following four key groups of companies.

Global Giants

- Headquartered in developed markets
- Global revenues of $5 billion or more
- Generate 20 percent or more of global revenues from emerging markets

Small Wonders

- Headquartered in developed markets
- Revenues of less than $1 billion
- Generate 20 percent or more of global revenues from emerging markets

Fast Challengers

- Headquartered in developed markets
- Global revenues of $1 - $5 billion
- Generate 20 percent or more of global revenues from emerging markets

Emerging Market Contenders

- Headquartered in emerging markets
- Any revenue size
- Have met or exceeded their sales revenue goals over the last three years in emerging markets (not including their home country)

Confronting the challenges to revenue growth

Capturing a share of the fast-growing economies in emerging markets is an alluring prospect. But while the opportunities are great, so are the challenges. To be successful, companies must confront and manage a variety of complex challenges.

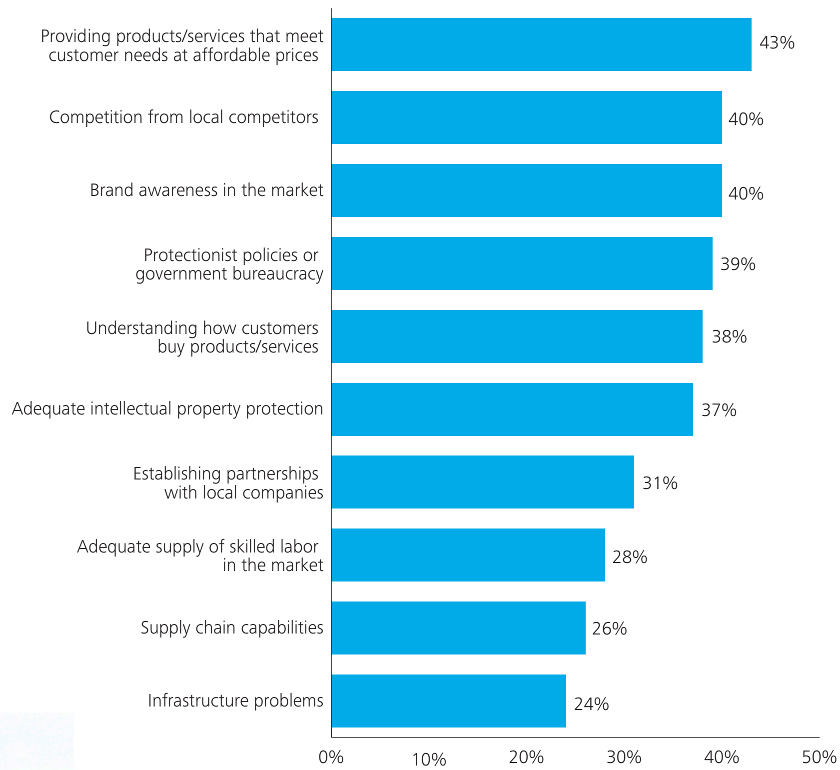
For each of the six major emerging markets analyzed, executives were asked how challenging 10 potential obstacles were to their company's efforts to increase sales revenue. The issue most often rated as an extremely or very significant challenge across the six emerging markets was *providing products/services that meet customer needs at affordable prices* (43 percent) (Figure 11).

As multinational companies enter and expand into emerging markets, they must promote their brands among customers and compete with existing local companies. These issues were among the challenges most often rated as extremely or very significant challenges: *competition from local competitors* (40 percent) and *brand awareness in the market* (40 percent). Several other issues were also rated as significant challenges by roughly 40 percent of the executives: *protectionist policies or government bureaucracy, understanding how customers buy products/services,* and *adequate intellectual property protection.*

Figure 11: Challenges to increase emerging market revenues

Percentage responding extremely/very significant

Base = Total responses about six emerging markets



Note: Six emerging markets are China, India, Southeast Asia, Brazil, Latin American outside Brazil, and Eastern Europe and Russia.

While these issues were most often rated as challenging across all six emerging markets, there were significant differences in the greatest challenges posed by each market (Figure 12). In China, adequate protection of intellectual property was rated as the most significant challenge, but this issue was not among the top three challenges in other markets. Protection of intellectual property has been an ongoing concern in China, as companies in luxury goods, electronics, and other industries have confronted cases where counterfeit versions of their products have been sold.

Protectionist policies/government bureaucracy was the number one challenge in Eastern Europe and Russia, and the number two challenge in India, but not among the top challenges in the other markets. For example, in India foreign companies in certain industries (including railways, legal services, insurance, and domestic air travel) either cannot enter the country or can only take a minority stake.[10]

Two issues were rated most often as among the top three challenges in multiple markets. The first issue, providing *products/services that meet customer needs at affordable prices* was rated among the top three challenges in five of the six markets. It was the number one challenge in India and Southeast Asia and the number two challenge in Latin America outside Brazil, and in Eastern Europe and Russia. The second issue at the top of the list was brand awareness. Gaining recognition and trust among emerging market customers is essential, and *brand awareness in the local market* was rated as the number one challenge in Latin America (outside Brazil) and among the top three challenges in all six markets.

Figure 12: Top challenges in individual emerging markets

	#1 Challenge	#2 Challenge	#3 Challenge
China	Adequate intellectual property protection	Competition from local competitors	Brand awareness in the market
India	Providing products/services that meet customer needs at affordable prices	Protectionist policies or government bureaucracy	Understanding how customers buy products/services
Southeast Asia	Providing products/services that meet customer needs at affordable prices	Brand awareness in the market	Understanding how customers buy products/services
Brazil	Competition from local competitors	Brand awareness in the market	Providing products/services that meet customer needs at affordable prices
Latin America (outside Brazil)	Brand awareness in the market	Providing products/services that meet customer needs at affordable prices	Competition from local competitors
Eastern Europe and Russia	Protectionist policies or government bureaucracy	Providing products/services that meet customer needs at affordable prices	Brand awareness in the market

[10] "Fling wide the gates," The Economist, April 14, 2011

Although successful, Global Giants recognize the challenges

Although executives at companies of different revenue sizes gave broadly similar ratings of the challenges facing their companies, there were significant differences between Global Giants and companies of the same size with less presence in emerging markets. For example, 50 percent of Global Giants rated *providing products and services that meet the needs of customers at prices they can afford* as extremely or very challenging compared to only 26 percent of companies of the same size with less presence in emerging markets. Global Giants were also more likely to rate as extremely or very significant challenges other issues related to selling their products and services in emerging markets: *brand awareness in the market* (51 percent vs. 22 percent) and *understanding how customers/consumers in the market buy products/ services* (45 percent vs. 18 percent) (Figure 13).

Although Global Giants are more likely to exceed their emerging market revenue goals, they recognize that maintaining their growth in emerging markets will require an ongoing effort to understand and meet customer needs in each local market as well as continuing to build brand awareness.

Figure 13: Challenges for Global Giants to increase revenues in emerging markets

Percentage responding extremely/very significant
Base = Total responses about six emerging markets

	$5 billion or more		$1 - $5 billion		Less than $1 billion		All revenue sizes
	Global Giants	Less presence	Fast Challengers	Less presence	Small Wonders	Less presence	Emerging Market Contenders
Providing products/services that meet customer needs at affordable prices	50%	26%	49%	48%	39%	37%	39%
Brand awareness in the market	51%	22%	29%	42%	41%	40%	44%
Understanding how customers buy products/services	45%	18%	33%	42%	37%	38%	41%
Establising partnerships with local companies	32%	22%	16%	32%	27%	45%	24%
Adequate supply of skilled labor in the market	39%	23%	26%	25%	28%	23%	15%
Supply chain capabilities	35%	9%	16%	28%	27%	23%	26%

Note: Global Giants, Fast Challengers, and Small Wonders are companies located in developed markets that generate 20 percent or more of their global revenues from emerging markets. “Less Emerging Market Presence” is the group of companies in each revenue range that are located in developed markets and generate less than 20 percent of their global revenues from emerging markets.

Note: Six emerging markets are China, India, Southeast Asia, Brazil, Latin American outside Brazil, and Eastern Europe and Russia.

Note: Only substantial differences are shown.

Driving revenue growth in emerging markets: Four archetypes

Through our research and client work, Deloitte has found four prototypical models – what we call *Emerging Market Archetypes* – that exemplify the choices organizations make in pursuing growth in emerging markets. These archetypes provide a useful construct to understand how companies can both enter and expand their presence in emerging markets (Figure 14).

The four identified Emerging Market Archetypes are:

- **Participant:** Provide strong branded products that require little or no customization and are typically targeted to top income segments. *Participants* usually leverage their existing developed market capabilities and gain access to emerging markets through partnerships or joint ventures (e.g., for sales distribution).
- **Adaptor:** Customize existing products/services to better meet local market needs, serving both the high- and middle- income segments. *Adaptors* use their existing infrastructure where possible, but develop additional capabilities to increase their local market competitiveness and reach.
- **Creator:** Develop innovative, market-specific offerings that address unmet needs and expand the market by breaking local market constraints (e.g., access, awareness, and affordability) that typically restrict addressable demand. *Creators* typically develop or acquire new in-market capabilities to support innovation (e.g., research and development).
- **Assimilator:** Export innovations (including products/services, processes, and business models) from one emerging market to fulfill customer demand in other emerging or developed markets. *Assimilators* develop the global capabilities to leverage knowledge and innovations across the organization to drive revenue growth globally.

Each of these archetypes can provide a viable model for driving growth in emerging markets. However, there are significant implications in terms of the customers targeted (who), products/service offerings required (what), and the operating model and supporting capabilities needed (how). Therefore, organizations must weigh the benefits and challenges (Figure 15) to ensure investments in emerging markets are aligned with their overall strategic objectives.

These archetypes are naturally broad categories, and a company may employ more than one archetype for different emerging markets or for its different business units. Progressing from one archetype to the next (left to right) can expand the addressable market and unlock market potential, but also increases the sophistication and scale of the capabilities required for success.

Figure 14. Emerging market growth framework

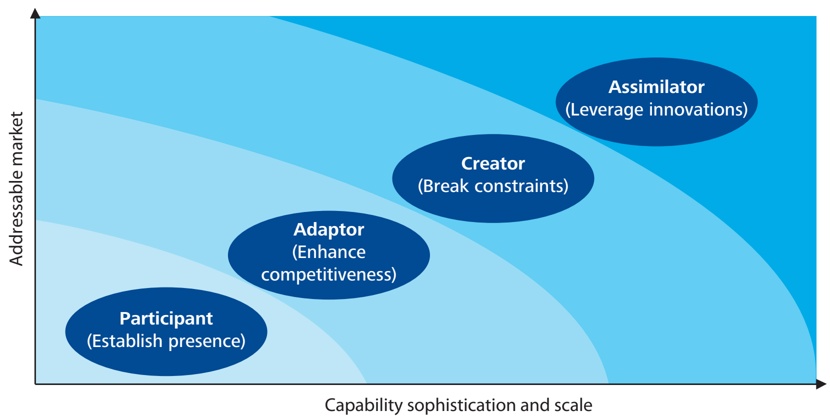


Figure 15: Benefits and challenges of emerging markets archetypes

	Participant	Adaptor	Creator	Assimilator
Typical benefits	• Typically higher price points due to premium positioning • Brand strength as competitive advantage • Limited direct investments	• Larger addressable market • Leverages existing capabilities and assets • Increases revenue with less R&D effort	• Address segments unserved by competitors • Penetration of population pyramid • Competitive advantage not easily matched	• Gain scale by leveraging learning and advantages across markets (e.g., lower cost structure) • Disrupt current competitors • Pre-empt competitive
Typical challenges	• Typically does not "own" customer relationship • Maintaining price premiums • Limited addressable market	• Increased investment risk • Cost structure sometimes inconsistent with local competitors • Knowledge of market	• Lower margin • Develops deep local market insights • Develops local market talent and capabilities	• Offering/brand cannibalization • Replicates advantages in other markets • Organizational challenges

The way forward

Emerging markets offer the potential for substantial revenue growth, but creating—and executing—an emerging market growth strategy is a complex undertaking. Moving forward, we see four primary elements that leaders should consider to help achieve their emerging market growth objectives.

Casting a wider net

Organizations need to understand the growth opportunities and challenges specific to each emerging market to determine whether it is a good fit for the company's overall strategy, growth objectives, and products/services. While BRIC (particularly BIC) countries remain highly relevant, the next wave of investments in emerging markets is likely to be in more up-and-coming regions. Organizations, therefore, will need a broader aperture to identify and evaluate future investments or risk falling behind.

Understanding evolving customer needs

There are significant differences in the factors that influence demand within and across emerging markets. As the survey data indicate, companies of different sizes face different challenges. And different industries represent different opportunities. To win in an emerging market, companies must clearly communicate and deliver the appropriate value proposition in ways highly customized to the needs of customers and segments in a particular market (or even sub-market). As these needs evolve, so must an organization's value propositions.

Building market-specific capabilities

Executing well in emerging markets is an ongoing challenge for companies, particularly developing the right operating model, capabilities, and governance to achieve their objectives. As we have seen, the data show there are many key challenges: Where should operations be located? How much autonomy should be given to local subsidiaries/business units? What capabilities are needed and how should they be acquired?

Given the ability to understand local market needs is increasingly critical, developing more in-market capabilities is likely to become increasingly important.

Navigate local requirements and manage risk

Emerging markets pose risks that are either absent or less serious in developed markets – including corruption, economic and political stability, unreliable physical and technological infrastructure, and legal uncertainty, among others. Companies must learn the complexities and nuances of navigating requirements idiosyncratic to each market. They also need to enhance their enterprise risk management capabilities to understand the risks common to emerging markets and how to mitigate them in a world with increasing uncertainty.

For many companies, the opportunity in emerging markets is significant, but the challenges can be daunting. Driving growth in emerging markets has fundamental implications for a company's business strategy, operating model, and risk management capabilities – now as well as in the future. The lessons learned from this survey – both successes and failures – can help organizations build more robust and sustainable platforms for growth in emerging markets.

About the survey

The survey was conducted online in mid-2011 and was completed by 628 executives, including 389 executives at companies that currently generate revenue from at least one of 10 emerging markets: China, India, Southeast Asia, South Korea, Brazil, Mexico and Central/South America (outside Brazil), Eastern Europe and Russia, Turkey, Egypt, and South Africa.

Regarding headquarters location, 36 percent of the companies were headquartered in Asia, 30 percent in Europe, 25 percent in the U.S. and Canada (with 20 percent in the U.S. and 5 percent in Canada), 4 percent in Latin America, and the remainder in other locations (Figure 16).

The companies participating in the survey represented a range of industries. Thirty eight percent were in manufacturing, 13 percent were in financial services/real estate, 11 percent were in information technology, and 8 percent were in energy and resources (Figure 17).

Regarding the titles of respondents, 32 percent held the title of chief executive officer or president, 16 percent held other C-Suite titles (such as chief financial officer or chief operating officer), 27 percent were executive vice president, senior vice president or vice president, 20 percent were directors, and 14 percent had other titles.

For more information, visit **www.deloitte.com/us/emergingmarketgrowthsurvey**.

Figure 16: Location of parent company global headquarters

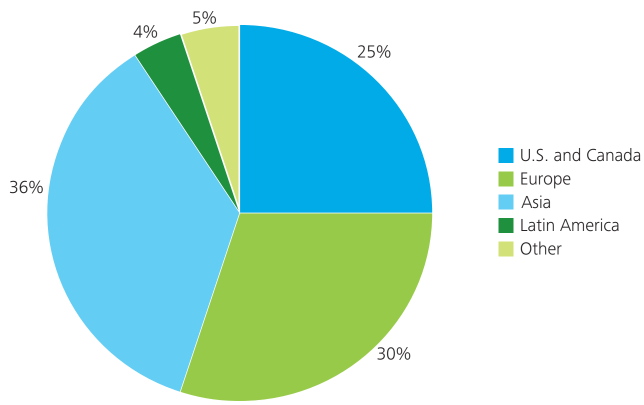


Figure 17: Industry

Manufacturing	**38%**	**Information Technology**	**11%**
Manufacturing: Industrial	11%	**Energy and Resources**	**8%**
Manufacturing: Consumer Products	10%	**Life Sciences**	**4%**
Manufacturing: Process	7%	**Telecommications**	**4%**
Manufacturing: Automotive	4%	**Media**	**3%**
Manufacturing: Diversified	3%	**Retail**	**3%**
Manufacturing: Other	4%	**Health Care**	**2%**
Financial services/Real estate	**13%**	**Other**	**14%**
Banking/securities	5%		
Financial services: Other	5%		
Real estate	3%		

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