

***Emerging Markets
Centre of Excellence***

Emerging Markets Conclave -
November 14, 2013

Emerging markets: Seize the day!

Powered by unparalleled growth and a steady upswing in international trade, emerging markets are now a global force to contend with, according to Claude Smadja, former managing director of the World Economic Forum. Smadja, who currently runs his own strategic consulting firm, delivered the keynote address at PwC India's Emerging Markets Conclave in Mumbai on November 14, 2013.

While growth has slowed down in the emerging markets, the fundamentals continue to be sound. Emerging markets will account for up to 50% of international trade by 2020 while the US loses ground, down by a third to 10%. Meanwhile, Europe has disappeared from the radar, stuck in a seemingly endless recession, which is likely to last for another seven years.

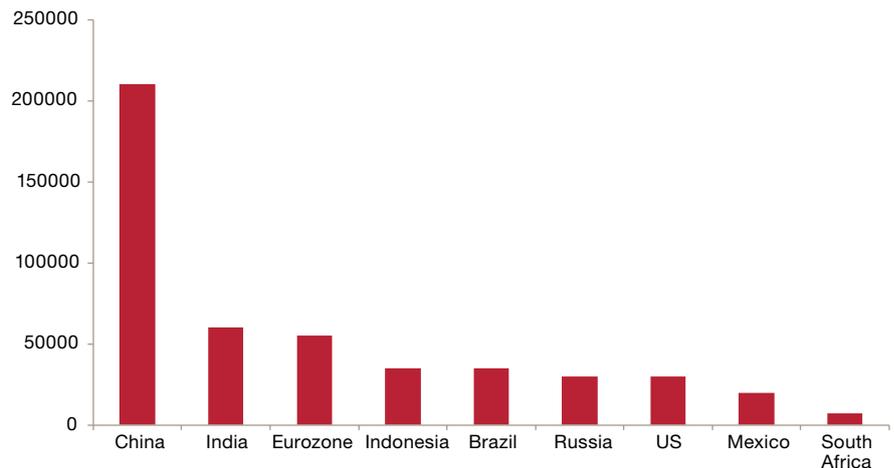
All the while, emerging markets continue to move ahead, with relentless momentum. Over the next few years, they are expected to contribute more than 70% to global GDP growth. And many of them will reach a peak demographic dividend, during which, declines in mortality and fertility will typically lead to economic growth and prosperity because the labour force grows faster than the aging population.

New constellation of growth

In this new constellation of growth within the global economy, the middle class is on the ascendant. Often located in the urban population centres in emerging markets worldwide, this growing middle class has an insatiable capacity for goods and services; the dynamism and purchasing power of this growing group of consumers cannot be underestimated.



Number of households with income of 10000 - 35000 USD, 2020



Source : Oxford Economics

Nor can we underestimate the incredible speed at which knowledge and technology transfers occur today, signaling the end of the American and European monopoly on knowledge and technology. The implications of this upending of the knowledge economy are tremendous. All the Fortune 500 companies now have R and D centres in China and 70% of them have them in India.

Combine the multiplier impact of these R and D centres with the multiplier impact of students from emerging markets studying abroad and then coming home with their newly acquired knowledge and the result is a multifold increase in knowledge capital. This knowledge can be integrated and utilised at a much faster clip than it originally occurred in developed economies because of the speed of knowledge and technology transmission today.

Social media spurs change

Despite these tremendous opportunities, however, some institutional roadblocks persist, including government regulations and bureaucratic red tape. India, for example, presents a host of constraints. While the business class knows what needs to be done, political will continues to lag, resulting in a deficit of leadership.

For now, the lack of leadership is stymieing much-needed investment in new physical and digital infrastructure. However, encouraging signs of leadership can be found in a number of emerging markets, including Mexico, Peru, Rwanda, Chile and Indonesia.

The emergence of the middle class is encouraging because of the rise of civil society and its attendant focus on governance. Concurrently, the growth of social media can wield powerful pressure as a tool of change, as this has already been proven around the world.

Deciphering emerging market DNA

Following the keynote discussion, three separate PwC-moderated panels of business leaders discussed the strategic and tactical opportunities and challenges of doing business in an emerging market.

How can a European or American company adapt to the business environment in an emerging market and adjust its value proposition while remaining profitable?

- What are some of the challenges of doing business in an emerging market?
- What are the opportunities?
- How similar is each emerging market to the other?

While no magic answer exists, Prakash Iyer, Managing Director of Kimberly-Clark Lever, counselled that low price does not mean low margin. For Kimberly-Clark Lever, which sells diapers in India, 26 million babies represent an enormous opportunity, especially since only three million are currently diapered. But the misperception that diapers cause rash was not easy to counter. So, the company specifically created softer and more breathable diapers for the Indian market.

Jugaad gets it done

According to Sanjeev Aga, a Mumbai-based former corporate CEO with 20 years of C-suite experience, innovation in India occurs under pressure rather than as part of an overall corporate strategy; the diaper example is a case in point.

Commonly referred to in India as jugaad, which means an ‘innovative fix’ according to the authors of a 2012 book titled Jugaad Innovation, this type of innovation combines ingenuity and resourcefulness, often in the face of limited resources. The authors point out that the mindset and principles that engender this type of frugal, flexible, inclusive innovation are common in many emerging markets. The concept is referred to as gambiarra in Brazil and zizhuo chuangxin in China.¹

That type of flexibility also applies in the case of the supply chain, according to Sanjeev Kumar, CFO for Coca-Cola India. He says the supply chain in India is never fixed or standardised. Rather, it is always evolving to keep up with the informality of local markets. Demand in those local markets, and the beverage maker’s response to that demand, have made India the 7th largest market for Coca-Cola, which has seen six consecutive years of double-digit growth in the country.²

Bring your parents to work

Recruiting and retaining human capital presents the biggest challenge in India, according to Khurshed Thanawalla, Managing Director of industrial products company Oerlikon India.

When an employee walks in through the door, he or she isn’t ready to hit the ground and run. Instead, the company needs to expend considerable resources to train employees.

Devraj Doss, Finance Director for Diageo’s India new business division agrees, saying it’s important to hire the right person even if that process takes more time because the cost of hiring a mismatch far exceeds the cost of slower growth due to lack of talent at a particular point in time.

Employee retention can improve from pairing new employees with a senior manager, according to Dr. Anand Agarwal, CEO of Sterlite, a metals and mining company.



Recognising the major transition from college to the workplace and the crucial role that parents play in this transition in India, the company invites parents to the orientation. The outcome is a sharp reduction in attrition.

Relationships matter most

Data drives decision-making in developed markets; however, given the lack of data in emerging markets, instinct and judgment play a much more central role. Emerging markets like India are primarily relationship driven. This means leadership back at the headquarters needs to trust the local market leader; and empower that person to make the necessary decisions to capture the upside and minimise the downside of doing business in an emerging market.

Acquisitions in emerging markets are resource driven, says Dev Bhattacharya, Chief Strategy Officer of the Aditya Birla Group, a diversified industrial and consumer products conglomerate. In developed markets, on the other hand, technology processes, and R and D drive acquisitions.

Ultimately, a one-size-fits-all vision of emerging markets will not work because while some similarities exist, the sector and size of the company also determines the corporate strategy in each market.

The vibrancy of emerging markets

There’s a vibrancy about India, says Ipsita Dasgupta, Chief Marketing Officer for GE India. “I am wowed by the ideas that come out of India,” she says, citing the company’s centre on healthcare in India where GE invests some 50 million USD annually. Today, the company’s Lullaby baby warmer, a prime example of frugal innovation researched and developed in India, is sold in more than 80 countries worldwide.

Companies such as GE recognise that slapping new packaging onto an existing product and hoping to succeed in selling it in an emerging market is not a strategy that works. Instead, they are designing products and services for the market that PwC research has identified as the “next four billion”, those whose incomes range from 1.75 USD to 5 USD a day.³

Building loyalty early within this group serves companies well as consumers acquire more disposable income. In addition to India and China, this group includes Indonesia as well as countries in Latin America and Africa, representing a combined annual market that will exceed 6 trillion USD by 2021.⁴

¹Esha Chhabra, “Jugaad: Frugal Innovation—Lessons for Corporates,” Dowser, July 11, 2012, <http://dowser.org/jugaad-frugal-innovation-lessons-for-corporates/>.

²“Coca-Cola Turns 20 in India, Its 7th Largest Market,” ChainIndia, August 30, 2013.

³PwC, *Profitable Growth Strategies for the Global Emerging Middle: Learning from the “Next Four Billion” Markets*, 2012.

⁴Ibid.

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