

Growth beyond home

*Taking advantage of
opportunities in emerging
markets.*

2012



Why now?

Emerging market* growth has continued through the economic, fiscal and debt challenges that have undermined business confidence in recent years. It is hardly surprising therefore that an increasing number of companies are refocusing their growth strategies on those fast-growing markets. With youthful populations, rising per capita incomes and often healthy public finances, emerging markets are increasingly moving centre stage.

Emerging markets present specific opportunities for Irish and Ireland-based companies, not least in Ireland's 'success story' sectors of food & beverage, life sciences, and ICT & digital media.

In China alone, there are now around 125 registered Irish companies, up from just 45 in 2005. This is progress, but clearly dwarfed by the estimated 4,000 UK companies in China, for example, which even on a per capita basis means that there are twice as many UK as Irish companies present.

Source: Enterprise Ireland; China-Britain Business Council

Irish companies have arguably been slower off the mark than their continental, UK or US counterparts. Take the food and beverage sector, where Irish produce has been relatively prominent in Europe and the US. Yet in China, from Scottish whisky to German beer, Swiss cheese to Australian beef, the premium food and beverage space is marked by a relative absence of Irish companies.

This pattern is repeated across several sectors, and not just in the more traditional 'physical export' sectors. In education, for example, while several Irish tertiary and specialist institutions have made important inroads with representative offices and recruitment activities in Asia, total Asian student numbers in Ireland are under the 10,000 mark.

New Zealand, for example, of comparable scale to Ireland, has almost 30,000 Asian students at the tertiary level alone. Australia, with roughly only five times Ireland's population, has over 250,000 international students at the tertiary level, with the largest inflows from China and Korea. Despite the advantage of time zone, Australia and New Zealand are no closer in flight time to major Asian markets than Ireland is. With Ireland's educational heritage and English-tuition environment, all within 90 minutes flight of major European tourist destinations, this represents a significant, but largely untapped, opportunity.

Source: UNESCO

These sectors, among others, offer real opportunities for Irish companies. Yet the later the entry to emerging markets, the harder it will be to gain market share from those brands currently establishing their market leading reputation.

Clearly, determined Western companies can succeed in emerging markets, and with Ireland's pragmatic and personable business culture, there is no inherent reason why Irish companies cannot also compete and win in rapidly evolving markets.

**We define emerging markets as low to medium income per capita countries with persistently higher growth rates than those seen in traditional "advanced" economies, such as those in Western Europe and North America. This diverse group includes the heavyweights of China, India and Brazil, as well as smaller but rapidly growing economies such as Ghana and Kazakhstan.*



Irish food and drink exports rose 11% in 2010 to €7.88 billion. But a clear majority of such exports are still limited to Europe and North America, slow-growth markets with established brands and mature purchasing patterns.

Source: Bord Bia, PwC analysis



Key considerations

With opportunity comes risk. Entering or expanding in emerging markets demands a clear understanding of the hurdles involved. Working with new partners, nurturing government relations, or monitoring supply chain and route to market are all made more complex by cultural and linguistic barriers. Such challenges are faced and overcome on a daily basis by our network of PwC firms and their clients.

Understanding risks

- Political environment, regulatory and legal system
- Brand infringement
- Local supply and distribution chain reliability

Geographic approach

- Regional launch versus national launch
- Affluent, competitive regional markets versus less competitive counterparts
- Logistics limitations and partnership requirements

Market positioning

- Much broader price and positioning spectrum than traditional markets
- Balancing premium with mass market opportunities
- Significantly different consumer class structure and resulting promotional environment

Understanding the risks, and having a strategic vision to inform your market positioning and geographic approach are essential considerations. For this, insight into local culture is especially important. Culture can be critical to determining company structure, customer focus, product or brand localisation and distribution. It can also be a deciding factor in the investment vehicle used, the selection of partners and the composition of management. And that is only the beginning.

In larger markets like China and India, companies must differentiate between the cultures and norms of the many diverse parts and populations within an individual country. And because there can be such marked differences from one area to the next, it is crucial that companies aim their business models at specific market segments.

Even internal growth rates within a single emerging economy can vary dramatically by geography. China, for example, offers several relatively affluent coastal regions like Beijing, Shanghai and Guangdong, suitable for the introduction and growth of premium Western brands in the consumer goods and food & beverage space.

For those companies targeting genuine mass market scale, however, the opportunity is much larger. China's inland cities in provinces like Sichuan and Shaanxi offer a very different environment. Now the priority of China's economic planners, such inland markets will attract the lion's share of future property, infrastructure and mass market consumer goods growth.

In effect, a market as large as China's is not just geographically split, but split across a huge scale of price sensitivity. Western pioneers in China as diverse as Yum! brands (Pizza Hut, KFC), Unilever and General Electric have recognised this opportunity for simultaneously selling into multiple segments of China's diverse economy. They have done this through entering at multiple price points and distribution channels, and localising products to local tastes.

The options available

PwC's Globalisation Maturity Model describes some of the dimensions most affected as companies move through the different phases of new market expansion.

It offers a framework for decision-makers to identify some of the key challenges at each stage. Key to this framework is the understanding that a company's globalisation trajectory may not be linear. Not all businesses will, or should, move from the export to the originate phase. A company's absolute position, how global it is, is less important than its position relative to its major competitors or industry leaders.

Indeed, in some industries the 'export' phase may be sufficient as long as the company can ensure it maintains its competitive advantage, or where origin itself is seen as a key branding asset.



A summary of PwC's Globalisation Maturity Model

Export

Traditional markets continue to dominate sales. Emerging market sales are made through third parties and arms-length arrangements

- Products offered in non-home regions are virtually identical to home market products
- The company has a strong national supply chain with international distribution
- IP is closely guarded and held tightly in the headquarters
- The company's senior management is based in the home country and/or transferred to new markets

Regionalise

The company has an active presence in emerging markets, often with local partners

- Product characteristics are adjusted to local market requirements
- An increasing proportion of production and supply is localised in new regions, quality systems are evolved
- The company deploys R&D centres in expansion regions
- The company recruits locally and regional management teams are from the new region

Originate

The company significantly adapts its market approach for emerging markets, and may make long-term structural commitments to partnership

- Product offerings originate in and are tailored to new regions and may be sold globally
- The company manages a global footprint and uses total landed cost to determine sourcing, production and distribution locations, with integrated quality management
- The company maintains a global network to exploit the wider R&D ecosystem, while ensuring innovation and quality in design



How we can help



Identifying, and taking advantage of, opportunities

PwC can help you from identifying opportunities right through to their implementation on the ground. Emerging markets' burgeoning middle classes are willing to pay for premium imports, and localised European brands can have an even wider appeal. How best to reach that market, which cities to launch in, with which products and at what price point and packaging? These are some of the queries we can work through with you to achieve growth.

Emerging markets, of course, differ vastly from one another. The particularities of each market require rigorous attention. PwC can help demystify and simplify this process, distilling the complexities of far flung markets and providing an independent and balanced assessment of the opportunities and strategic approach your company may take.

PwC offers a range of market entry and growth products, tailored to our Irish clients seeking growth in emerging markets. We represent a one-stop-shop that assists you on the path from drawing board to implementation. Not an exhaustive list, our services include:

Market identification and prioritisation

From assisting your global strategy and sizing of the opportunity through to prioritising the order of market expansion, e.g. a mini-market trial in a city-state like Hong Kong or individual province launches in larger markets like China or Brazil.

Market entry strategy

Comparing a minimal or indirect presence with a more substantive approach, and assisting your decision on greenfield versus M&A versus partnership entry.

Commercial strategy

From assessing the competition and conducting 'Voice of the Customer' research, through to assisting your decision on which products at what price points and through which channels.

Target / partner identification

From initial target/partner identification through to short-listing and introductions.

Due diligence

Incorporating financial, commercial and tax due diligence on your target / partner, where relevant.

Location assessment

Assisting your decision on where to base key operations, from representative offices through to full production and logistics facilities, balancing the needs of both supply chain and end demand.

Approach to talent

Assisting on your balance of local knowledge with proven home-grown talent, from an analysis of local talent supply through to benchmarks with similarly placed multinationals and the experience of expats in the region.

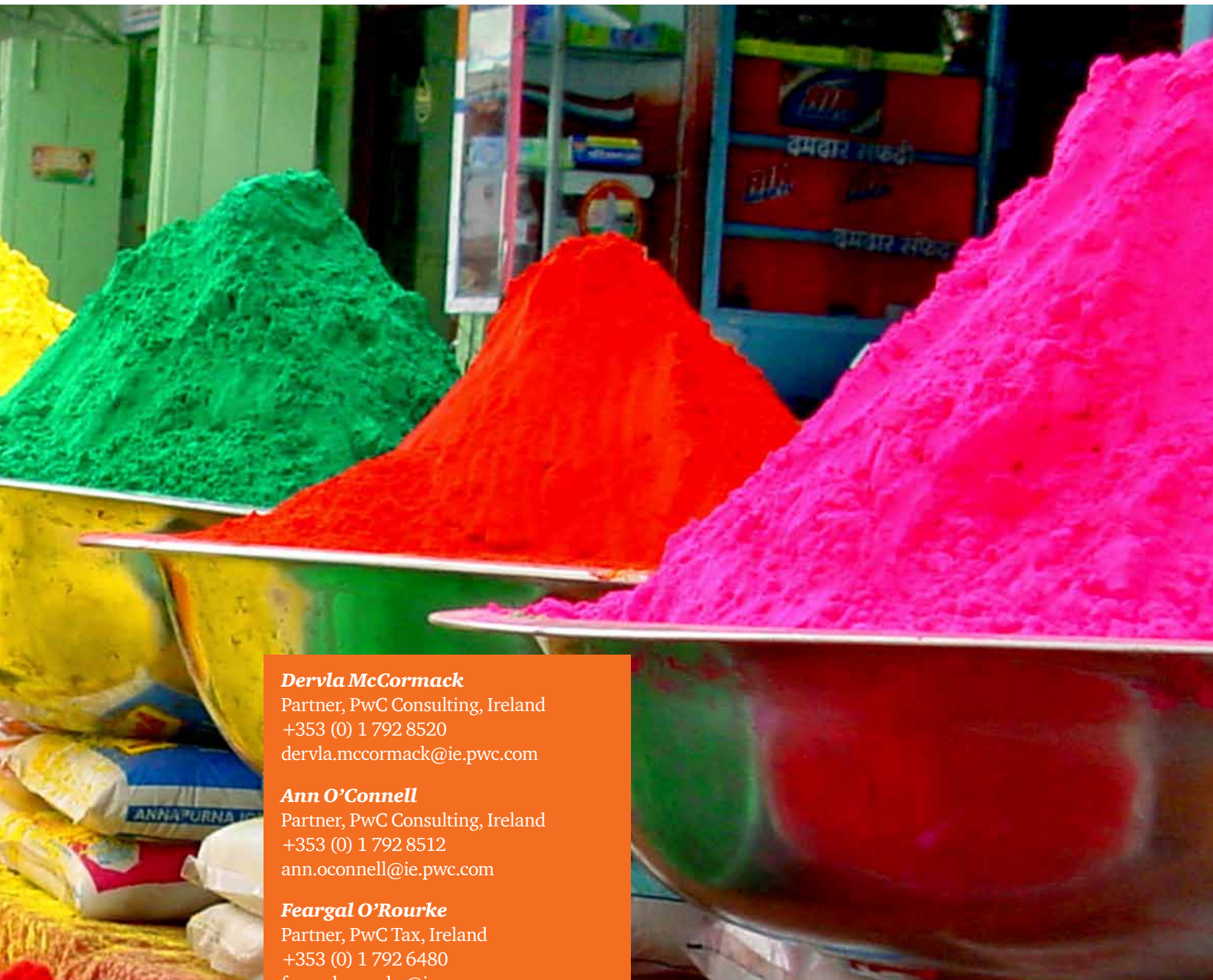
Corporate finance, tax and regulatory support

From assisting your emerging market financing and tax needs through to the facilitation of government relations and regulatory advice.



Key contacts and contributors

We look forward to exploring how you could take advantage of opportunities in emerging markets. For an initial discussion, give us a call.



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Acknowledgements

This paper has drawn on the PwC international publication "Resilient growth: Making the most of opportunities away from home".

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