# Emerging markets: What to know before you go

## Expansion into emerging markets is a tempting proposition for many businesses. But before jumping onto a BRIC-bound bandwagon, make sure you really understand what's in store.

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### Before jumping onto the BRIC bandwagon, make sure you really understand what's in store, or your gold rush dreams are bound to get dashed.

With Europe still in the throes of recession and the U.S. economy growing at a snail's pace, companies and investors are naturally looking to emerging economies for more attractive growth opportunities abroad.

However, as IESE faculty members and other business experts caution, companies would do well to look more closely before they leap.

Granted, emerging markets, with the newfound spending capacity of their fast-rising middle classes, do hold much promise.

However, companies that embark upon such expansion without a firm grasp of what makes an economy "emerging" can end up trapped in a complex maze, with unexpected — and often unpleasant — surprises around every corner.

## A broader definition

The term "emerging market" has become defined almost exclusively along geographical lines. Whether BRICS (Brazil, Russia, India, China and South Africa) or any of the acronym's

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variations, the term generally refers to nations in the process of rapid growth and industrialization.

Nevertheless, many experts argue that the term is dangerously misleading, for emerging markets are clearly not a monolithic geographic grouping.

Harvard's Tarun Khanna and Krishna Palepu, who as a visiting professor at IESE spoke on "Winning in Emerging Markets" as part of the Fast Forward program, define a market as "emerging" when "the specialized intermediaries necessary for the proper functioning of [that] market are absent or poorly functioning, requiring market participants to work to find new ways to bring buyers and sellers together for some productive exchange."

Understood this way, identifying institutional voids is key to seizing emerging opportunities. The more companies and investors know about institutional voids, the better chance they will have of overcoming major challenges.

## Observe emerging demographics

Based on this logic, any sector or demographic within an economy, whether in the developing or developed world, can be considered "emerging."

Take the demographics of global consumer trends today, which can point to emerging opportunities tomorrow, says IESE Prof. J.L. Nueno.

Nueno cites the case of the global teenage market, which is already valued at around 750 billion euros annually. This demographic is on the rise, particularly in emerging economies.

With clothing, leisure and entertainment as favorite spending categories, "not only do teenagers constitute an important market niche of their own, but the success of many companies may lie in getting to know this demographic better," says Nueno.

## Other attractive countries, not just the "hot" ones

To help companies and investors explore key questions in capital markets, IESE Prof. Heinrich Liechtenstein, together with coauthors Alexander Groh and Karsten Lieser, recently published the annual Venture Capital and Private Equity Country Attractiveness Index, covering 118 countries worldwide.

Their index reveals recent strong investor interest not only in the BRICS but also in other

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emerging economies such as Turkey, Mexico, Indonesia, Nigeria and the Philippines, suggesting that investors would do well to expand their vision beyond what are often touted as the "hot" markets.

That said, their study highlights the risks of these emerging markets, most notably in relation to the disequilibrium between exceptional growth opportunities and advanced financial market infrastructure.

## More than GDP growth

To make the best investment decision possible, IESE Prof. Javier Estrada recommends avoiding the temptation to focus exclusively on the fastest growing economies abroad, as measured by GDP.

"Many investors assume that investing in fast-growing economies, such as China and India, is a sure way to good equity returns, but historical data shows otherwise," he says.

## Find your niche

The key is to find the right market niche or create an entirely new one yourself. This is precisely what the beverage manufacturer, AJE Group, has done.

The Peruvian company has achieved enormous success in 18 global markets by targeting people with limited resources — segments that were traditionally neglected by the leading brands.

Instead of trying to go head to head with major brands in saturated markets, AJE Group serves "an emerging market that is not being served, so that the whole product category grows," the company's managing director, Carlos Añaños, told IESE Insight.

Similarly, the Mexico-based baking company Bimbo has embraced a low-cost strategy, carefully tailoring its value proposition to the on-the-ground realities of each market it enters.

As CEO Daniel Servitje told IESE Insight, the key is to know your customers better than your competitors do.

## Refining your approach

One way that managers can ensure they are going in with their eyes open is through

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education and professional development. Programs for Leadership Development or Global C-Suite Programs can help executives understand how to identify new opportunities from various angles, including how to analyze new investment opportunities.

Regardless of where emerging paths to growth lie, a new framework can help companies and investors find promising opportunities in unexpected places.

Certainly, successfully seizing an emerging opportunity is a complex business with no one-size-fits-all formula. At home or abroad, success depends on knowing which questions to ask and adjusting value propositions to the markets, rather than vice versa.

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