Planning Today

REALIZING SUCCESS TOMORROW

From the G-7, to the BRIC, to the N-11, the search is ongoing for markets that promise growth and new opportunities for businesses around the globe. To that end, Goldman Sachs and others have conducted extensive analysis of market conditions in countries far off the traditional radar screen. However, what companies need to pay close attention to when selecting a new target market isn't just one country's market performance over another. Rather, the right target market has everything to do with aligning your company's unique product/services, goals, vision and global strategy with the most suitable country and then region.

This process involves taking the abundance of available data from a growing number of market possibilities and filtering that information to identify the best possible target market for your particular business. At a minimum, the value of this process comes from a changed mindset and a willingness to scan the world for opportunities beyond those traditionally considered – beyond the G-7, beyond the BRIC and even beyond the N-11 when appropriate. It's about exploring all the possibilities and planning for tomorrow's success.

The N-11 and Beyond

Goldman Sachs introduced the concept of N-11 (Next 11) in late 2005. The goal was to identify emerging markets with the future potential of the BRIC (Brazil, Russia, India and China) countries. The BRIC countries were first identified by Goldman Sachs in 2003 as the four fastest-growing developing economies in the world. Today, these markets are both well-known and well-exploited by business people all around the world. Despite the recent global economic downturn, each BRIC country has posted consistent economic growth since 2001. In 2007, for example, economic growth registered 4.4 percent, 7 percent, 8.9 percent and 11.5 percent for Brazil, Russia, India and China, respectively.

To illustrate the collective success of these BRIC countries, consider the fact that they now contribute 45 percent of total world growth compared to 20 percent from the G-7 and 11 percent from the N-11. Downstream, this success is shared with every business that embraced opportunities early, assessed the risk, did the strategic planning and took action. U.S. businesses must open their eyes and look through a new lens and see what opportunities must be explored today to ensure success tomorrow.

These N-11 economies represent the next big growth stories or the markets "worth keeping an eye on." The N-11 includes Bangladesh, Egypt, Indonesia, Iran, South Korea, Mexico, Nigeria, Pakistan, Philippines, Turkey and Vietnam. While these markets are culturally, geographically and economically diverse, each one is positioned for success by population size, resource-wealth and sub-regional dominance.

For example, each N-11 country has a large population coupled with high population growth rates that far exceed those of more developed economies. Between 1980 and 2008, population growth was highest in Pakistan at 110.8 percent and lowest in South Korea at 28.4 percent. Large populations indicate greater consumer market potential while high growth rates mean that this market will expand rapidly and provide more potential customers. Ultimately, however, it is buying power and GDP that determine which markets will grow and which will not.

Is a growing population an important market trait for every business? Of course not. Population growth is only critical for businesses looking to establish that market as a consumer base. Alternatively, many businesses expand globally to access skilled labor, more economical manufacturing, proximity to other (future) markets, improved distribution channels, or a myriad of other reasons. Again, the right market for any global expansion has more to do with matching the goals and vision of one organization with the unique characteristics of one or more potential markets.

Looking back 20 years, the options were far fewer, which made the decision-making process far simpler. Today, the options are seemingly endless and the information overwhelming. The trick is to focus on actionable data, make an informed decision and then align the expansion strategy to leverage the organization's strengths and create a long-term competitive advantage. While the regions in the N-11 have a long way to go before challenging the overall economies of the BRIC, they do represent a good starting point for any expansion analysis.

Future Prospects

Since the initial report by Goldman Sachs, the Philippines and Indonesia have performed better than most of the N-11 economies. Bangladesh, Egypt, South Korea, Turkey, Nigeria and Vietnam have performed in line with original projections. Meanwhile, Iran, Pakistan and Mexico have largely disappointed the analysts. The differing levels of performance have everything to do with country-specific factors.

For example, Mexico's struggles are indicative of their dependency on the U.S. economy, which experienced decelerating growth in 2007. By contrast, Vietnam's growth was fueled by an increase in tourism, as well as a diverse export market. In 2006, Vietnam sent just 22.8 percent of its exports to the United States, compared with 85.8 percent of Mexico's exports.

Across the board, the N-11 experienced sharper contractions during the economic crisis; however, they've since posted stronger rebounds as well. Interestingly, seven of the N-11 (Bangladesh, Egypt, Indonesia, Iran, Nigeria, Philippines and Vietnam) contributed more to world growth from 2007-2008 than collectively from 2000-2006.

Uncertainty Abounds

Nevertheless, these countries face extraordinary challenges and a difficult economic environment that could prevent them from following the BRIC growth path. Consider infrastructure. From roads, telecommunications and transportation to legal policies, accounting rules and government regulations, these countries are very early in the development phase. Another important factor for success is human capital. Many of these countries lack the skills necessary to reach their potential.

Ultimately, the success of any N-11 country will depend on more than just population, population growth and access to natural resources. It will take the international business community seeing potential and pursuing opportunities. That means finding ways to grow with these economies. Established economies must believe in the potential, invest in their progress and participate in the development of these emerging economies. Success will also require stable governments that are pro-business, open to trade and willing to invest in education.

To understand the challenges these countries face, it is also helpful to consult the Ease Of Doing Business Index (EODB). This index provides a quantitative measure of the regulations for starting a business, dealing with permits, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders enforcing contracts and closing a business. A low score, like the United States at 4, demonstrates a solid foundation for conducting business. In the N-11 community, five countries score well over 100, with the highest score being 148 for the Philippines. All but two countries, South Korea and Mexico, score well above 50. Obviously, a great deal of uncertainty abounds. But, it is precisely this uncertainty that makes N-11 so intriguing and filled with opportunity.

Start Today: Plan for Tomorrow

Although today may not be the day for every company to begin conducting business with Nigeria, Vietnam, Bangladesh or any other N-11, today is the day to put these countries on the strategic radar screen. Investigate the strengths and weaknesses of these emerging economies and understand how they might synchronize with your long-term strategic goals. Start building relationships now.

Alternatively, ask how you might modify long-term goals to take advantage of these opportunities. The N-11 dream can become a reality for those businesses willing to start today, think strategically, do the homework and be patient. Could one of them be your next target market? **mt**

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