



Success in Emerging Markets: ICT as Part of a Strategic Vision

Luxury goods manufacturers face a unique challenge—the exclusivity of their brand makes their products desirable but at the same time, limits their customer base. One of the strategies many luxury goods companies are employing to grow revenue and market share is to develop distribution and sales channels in emerging markets.

They're not alone in this endeavor. Companies in the personal care, airline, food service, and technology industries are also exploring emerging markets as a way to achieve growth—and for good reason. Today, the growth rate of emerging markets surpasses that of developed markets, creating new wealth and a strong consumer base. In fact, emerging economies will account for 70% of global growth from 2010 to 2020.¹ With an outlook like this, emerging markets are a likely game-changer for any organization with global aspirations.

However, entry into emerging markets is not as easy as entry into markets with more developed economies. To thrive in new markets, companies must 1) ensure information and communication technologies (ICT) are readily available and 2) be agile enough to adapt to local conditions. A number of companies have already found success in emerging markets. This paper shares insights from several of their experiences and gives practical advice for evaluating emerging markets.

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BUILD IT AND THEY WILL COME

King Abdullah Economic City (KAEC) is a master-planned city on the west coast of Saudi Arabia, built with the intention of making Saudi Arabia one of the world's top-ten investment destinations. Because it is pre-planned, the city has the luxury of being built from the ground up with state-of-the-art communications technologies, including pre-installed optical fiber and wireless broadband technologies. It's expected to be completed by 2020 and employ over one million people.

Technology Creates a Global Economy

The evolution of technology over the last decade has helped open new markets around the world, allowing millions of new producers and consumers to buy or sell their goods and services. Internet access, cloud computing, and smart phones can connect people in even the most rural villages, allowing previously isolated regions to participate in the global economy.

As trade borders disappear, businesses and consumers in developing markets—especially in Central and South America, the Middle East, Eastern Europe, Africa, China, and India—gain power. Trades like agriculture no longer represent the only way to earn a living because technology creates opportunities for higher earning potential. As advanced technologies reach these new markets, they allow hundreds of millions of people to earn wages that can lift them out of poverty and place them into a new, rapidly growing middle class.

By 2020, more than half of the world's population may belong to the middle class.² The World Bank estimates that the global middle class will grow from 430 million in 2000 to 1.2 billion by 2030, with China and India accounting for two-thirds of the expansion.³ The potential spending power of these markets and the availability of skilled labor attract both large and small corporations from around the world that are looking for new growth opportunities in emerging markets.

INVESTING FOR A PERSONAL TOUCH

Sales of personal care products in the BRIC nations are projected to grow by more than 40% between 2009 and 2014, according to Datamonitor research.^{iv} For a well-established personal care company, the burgeoning middle class in these countries provides a promising new market.

The company initially invested in a few key regions. By evaluating and understanding local buying habits, they discovered they needed to change their sales strategy and compete on price with this new middle class. This strategy has proved successful and today, almost half of their sales come from emerging markets.

ICT – The Underlying Driver

Though advances in all types of technology have proliferated, it is ICT—networking and telecommunication services, Internet and intranet access, e-mail, instant messaging, mobile phones, VoIP, and Web conferencing—that enables global growth in emerging markets. The global expansion in communications infrastructure and the adoption of network-based services are leading indicators of widespread economic development. Nowhere are networking growth and economic growth more interlinked than in emerging markets. World Bank surveys of more than 20,000 businesses in 50 developing countries suggest, “Firms using ICT see faster sales growth, higher productivity, and faster employee growth.”^v

Brazil in particular is a desirable market for many companies and illustrates World Bank growth projections. During the recent economic recession, Brazilian organizations and government bodies invested heavily in technology. Their ongoing commitment to technology has helped the country recover rapidly, and Brazil now accounts for nearly half of all IT spending in South America.^{vi} The Brazilian government also announced a National Broadband Plan with the goal of 90 million broadband connections by 2014, reaching half of all Brazilian homes. The National Broadband Plan should drive future growth for ICT and make Brazil one of the best performing global IT markets.

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FLYING HIGH IN SOUTH AMERICA

When a veteran executive wanted to establish a new airline, he looked at emerging markets. Brazil, with a population of 200 million and an economy that is projected to be the fifth largest by 2016, was the perfect destination.

The availability of reliable technology services made it possible for the airline to get off the ground in record time. Not only were they able to deploy an infrastructure that supported their operations, they were able to hire locally for many functions, including HR and accounting. This venture into an emerging market is paying off. Two years ago, the airline served over one million passengers. In 2010, it is on track to double its number of customers.

ICT Challenges in Emerging Markets

Accelerating growth in emerging markets represents appealing potential business opportunities—but entering these markets presents challenges that can make setting up ICT services difficult. Experience shows that infrastructure availability, regulatory requirements, culture, and politics vary in every region—even within regions. In addition, conditions in every market constantly change. It is nearly impossible, and not advisable, to pursue a one-size-fits-all strategy when deploying ICT services.

DRIVING IMPROVED CUSTOMER RELATIONSHIPS

When a luxury car manufacturer began exploring emerging markets, they recognized that how they deployed an effective customer relationship management (CRM) strategy and provided warranty services would change from region to region. The one-to-one relationship the company has with its customers could not be supported by a standard CRM system. Further, the company would have to re-evaluate its enterprise resource planning (ERP) system to connect to stakeholders in a variety of locations.

They needed reliable ICT services that could support their unique requirements. The company invested in a global IT infrastructure that could deliver rapid expansion, security, and quality of service in emerging markets such as Eastern Europe, Asia, and South America. They created a CRM/ERP strategy that worked centrally and across many local markets to make their luxury car experience unique.

With the IT infrastructure in place, the company was prepared to pursue their emerging market strategy. In the second half of 2010, the car maker successfully opened two locations in South America.



Measuring up to regional demands and corporate expectations is significantly easier with a local presence and local partners. These individuals can help organizations maneuver through tough regulations and cultural differences. The following examples demonstrate the wide range of challenges that can be encountered in emerging markets.

- Strict government regulations have earned China a reputation for being a difficult market to enter. In a 2010 World Bank ranking of 183 economies for ease of doing business, China was ranked 89, or in the lower half, while the United States ranked 4.^{vii} Understanding and accessing ICT services in China often requires direct contact with many government officials.
- In India, users are quite sophisticated and the number of remote workers is steadily increasing. Companies relying on Internet service delivery must accommodate the unique mobility requirements and needs of this region, including the growth rate of cloud-based services, which outpaces that of more developed nations.
- Some regions, such as Sub-Saharan Africa, are growing so quickly that it's difficult to find data center space or available bandwidth. Data centers in Africa are plagued by the lack of reliable electricity and skilled staff. Gaining access to scarce resources in this region may require strong negotiation and interaction with a wide range of government officials, as well as members of the local community.

A company almost always encounters small but significant market nuances that create a gap—in approach or in tradition—between corporate headquarters and its operational regions.

Think Globally but Act Locally

A local presence or strong local partnership can mitigate the challenges companies face as they navigate the user needs. It can also help companies abide by the regulations and customs required to establish a successful ICT infrastructure in an emerging market.

PARTNERING FOR A LOCAL PERSPECTIVE

Leading food service companies are well aware of the opportunity that exists in international markets, particularly the BRIC countries. The top 20 U.S. food service operators have increasingly shifted their focus from the home market to overseas.^{viii}

However, the difference between success and failure for these companies is often the ability to adapt to the local market. When a popular U.S. restaurant tried to enter the Russian market, their strategy was to replicate their U.S. model. They did not understand the local market and consumer preferences and their initial attempt failed.

When the company made a second attempt to establish their business in Russia, they did so with strong local partners that helped them successfully connect with the local customer base.

The following strategies can help global companies be successful in emerging markets:

- **Evaluate the market carefully**—The ability to scale quickly, both in business and technology, will be the competitive differentiator necessary to leverage the opportunities available in emerging markets. Business agility is dependent on the quality and availability of ICT services, which vary from region to region. It's important to consider reliability challenges with the local infrastructure, including the telecommunications loop and electrical grid, which can affect the network design.
- **Learn nuances within markets**—While there are many Spanish-speaking countries in Latin America, Costa Rica is recognized for having a neutral Spanish accent. This means that a speaker from Costa Rica is easily understood in any Spanish-speaking country. Being aware of this and other nuances—including the fact that Costa Rica is politically stable and has a strong education system—can represent a competitive differentiator for companies looking for Spanish-speaking call centers.
- **Hire local resources**—Local employees can be an extremely valuable bridge to the local culture and can also offer world-class technology skills. The growing middle class has created a larger talent pool to draw from, often eliminating the need to bring in outside resources. Partners, who have deep experience in the market, can help organizations understand local governments, regulations, customs, and technology limitations.
- **Establish a regional structure**—Although local talent resources may be highly educated and skilled, there may not be enough seasoned workers to fill the demand at the management level. To address this gap, many companies establish a regional structure staffed with expatriates from global headquarters. Regional management teams provide a strategic vantage point to oversee operations and talent within the region. This lets the organization implement management policies that develop local leadership.

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- **Completely integrate operations**—Once a decision is made to enter a new market, commit fully by immersing operations into the local community and culture. Corporations must integrate globally and adapt locally. The challenge to global integration is dealing with the inevitable complexity that stems from connecting systems and people across regions and countries. It requires flexibility to scale operations up and down as demands change and a willingness to explore new approaches to management and communication.

A Vision for Borderless Markets

Global markets vary in their level of IT sophistication, infrastructure availability, and even user adoption. Going forward, these differences will flatten out as more services become universally available. Over the next several years, these services and business applications will move into the cloud as a way to overcome local ICT challenges.

The growing number of users around the world who rely on online services will continue to shape ICT services, requiring them to be everywhere, invisible, intelligent, and aware. New architecture models, security strategies, and mobility applications deployed in the cloud will be able to support future growth and provide the flexibility to capitalize on market changes. This, however, will not negate the need to work with local resources in the near future.

REACHING FOR THE CLOUDS

A technology company expanding into Asia and the Middle East found it difficult to effectively and affordably collaborate between regional offices.

By investing in cloud-based unified communication tools, the company was able to facilitate meetings between management and the regional offices. This strategy enabled them to more quickly assimilate new employees into their corporate culture and business structure.

Now is the time to plan for new possibilities in markets around the world. Organizations that approach emerging markets from both a global and local perspective will find achieving global growth is no longer a lofty goal, but a common reality. Through careful market analysis, reliable ICT services, and strong local partnerships, organizations can take their business wherever there is opportunity.

Learn More

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ⁱ Robert Lenzner, "Ride the Next 10-Year Bubble in Emerging Markets", *Forbes.com*, April 1, 2010

ⁱⁱ The Global Middle Class Is Here: Now What? Jennifer Wheary, *World Policy Journal*, Winter 2009/10, Vol. 26, No. 4, p. 75, www.worldpolicy.org.

ⁱⁱⁱ Is the Developing World Catching Up? Maurizio Bussolo, Rafael E. De Hoyos, Denis Medvedev, *World Bank*, September 2008, http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2010/05/21/000158349_20100521155933/Rendered/PDF/WPS4733.pdf

^{iv} Parmy Olson, "Unilever Looks To Clean Up In Emerging Markets With Shampoo, Conditioner" *Forbes.com*, September 27, 2010.

^v The Next Decade of ICT Development: Access, Applications, and the Forces of Convergence, Mohsen Khalil and Charles Kenny, *The World Bank*, <http://www.charleskennyblogs.com/files/itid.kenny.final.doc>

^{vi} Brazil: A High-Tech Hot Spot for Innovation and Investment, *EE Times*, October 28, 2010, <http://www.eetimes.com/discussion/other/4210209/Brazil--A-high-tech-hot-spot-for-innovation-and-investment->

^{vii} *Doing Business 2010, Reforming through Difficult Times*, World Bank/International Finance Corporation/Palgrave Macmillan 2010, p. 4, <http://www.doingbusiness.org/~media/fpdkm/doing%20business/documents/annual-reports/english/db10-fullreport.pdf>

^{viii} *Going International Tips from Successful Case Studies*. Planet Retail. May 2010

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