BRIC Building (Part I)

By Eleanor Eaton

In our age of flat to negative growth in mature markets, companies are increasingly getting interested in the brave new world of the D&E –aka Developing and Emerging– markets. These markets exist all over the world, from Southern Asia to Eastern Europe, from Russia to Central Asia, from Africa to the Middle East and Latin America. Some of them lack appeal due to factors such as political uncertainty and instability, uneven growth and low consumer incomes.

Four countries have emerged as the most lucrative, rapidly developing markets with pent-up demand and growing middle classes: Brazil, Russia, India and China –in today's business jargon, BRIC. Factors such as tremendous population size, high single-digit to double-digit economic growth, meteoric accumulation of wealth and highly visible, ever expanding middle classes make the BRIC markets look like low-hanging fruit for companies looking for growth at a time of global recession.

BRIC has become a symbol of new development, a model of tremendous growth and fertile ground for daring entrepreneurs. However, can the group be treated as a uniform entity? Judge yourself:

Brazil: No Longer Just the Home of Carnival

Previously a backward place in Latin America, with high poverty and poor levels of education, Brazil has changed dramatically during the last five years. It became fabulously wealthy due to newfound oil deposits. The country's new president helped bring stability and prosperity through a series of legislative measures designed to develop country and people. Through its political neutrality, Brazil became an island of stability in Latin America. For US companies, Brazil may look like manna from heaven, as it has familiar business, cultural and political structures.

BUT, any aspiring entrant should beware of increasing global competition and, even more importantly, the market dominance of highly nationalized companies. For example, huge oil companies, such as Exxon/Mobil, BP or Shell, have found themselves in unfair competition with local oil companies. Taking on someone like Petrobras can be akin to taking on the government itself.

Insufficient infrastructure can be another pitfall in Brazil. Products are usually imported into the country through the most developed parts on the East Coast. However, once an importer decides to develop a local manufacturing base, reaching for low-cost sourcing in the middle and western part of the country can be difficult as the roads are neither well developed nor totally secure yet.

Winning strategies for success in Brazil include options such as acquiring an existing concern or identifying/creating lower-cost sourcing in nearby countries, for instance in Paraguay or Bolivia.

Russia: Still One of the Most Dangerous Places for Businesspeople in the World

The “New Russians” have money. More importantly, they are in the throngs of consumerism as a unique measure of success. Luxury items are not as appealing if they are on sale; houses are built not for comfort but for show. To Russians, elite and middle-class alike, ownership of costly material goods has almost become a personification of their self-esteem. The story goes that in the late 80’s, when then-president Mikhail Gorbachev came to the U.K. together with his wife, she admired Margaret Thatcher’s earrings and instantly inquired where these earrings had been bought. The very next day, Mrs. Gorbachev showed up at that same Cartier store and asked for “the same earrings your Prime Minister is wearing.” Without doubt, Russian consumer aspirations hold great promise for consumer goods manufacturers and retailers.

BUT, for Western businesses Russia is one of the most difficult places in the world to deal with. In the 90’s, mafia-like organizations took control of many distribution channels and Western businesses found themselves in disadvantaged and often outright dangerous positions. Today, the Russian government seems to have replaced the mafia, further aggravating the business climate. One could fight the mafia with beefed-up security and strong partners, but opposing the Russian government is not a recommended strategy.

Recent moves by the Russian government further worsened political and business conditions. BP, whose technical experts were kept from working in the country through a variety of government-imposed obstacles, is but one of numerous examples where companies unsuccessfully tried to wrestle the Russian government and government-sponsored industry rivals.

A possible strategy for success in this environment of uncertain business conditions and property rights that can be revoked instantly at the whim of the government is available to consumer goods companies without strong local rivals: For them, partnering with local retailers often presents the best opportunities, as the likes of Procter & Gamble, Sara Lee and Georgia Pacific have demonstrated.

In Part II of this article (www.leadershipcrossroads.com/BRIC2.pdf), we review the remaining two BRIC markets: India and China.

Eleanor Eaton has spent her professional career in consumer and industrial marketing in the U.S. and around the world. Originally employed by P&G in Marketing, Eleanor has worked as a consultant with McKinsey and Company. Since 1983, she has operated her own consulting practice focusing on competitive intelligence, acquisition due diligence and new market development in the U.S. and all major markets in Europe and Asia, including Russia, China and Japan. She has created distribution networks and identified manufacturing facilities in emerging markets. Among her clients are Xerox, James River, J&J, Sara Lee, Gillette, Kimberly-Clark and Eagle-Picher. You can contact Eleanor at eleanor@eleanoreaton.com.
